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SAUDI ARABIA
Kingdom resting on its assets
Survey, Section III

World News

## Tax reforms and rate cut at centre of Irish budget

A shift from direct to indirect taxation, the elimination of a wide range of tax reliefs and loopholes and a cut of 2p in the basic rate formed the centre of the Irish budget introduced in the Dail by finance minister Bertie Ahern.

Prime minister Charles Haughey fended off questions about his future during the budget debate, but is widely expected to announce his resignation today. The Progressive Democrat party, junior partner in his coalition government, last week told him to quit after the budget or lose its support. Page 2

**Japan may cut forces**
Japan may cut its defence forces in response to the end of the Cold War, prime minister Kiichi Miyazawa told parliament. Page 7

**Israeli election date**
Israeli prime minister Yitzhak Shamir has agreed with the opposition Labour party to hold a general election on June 23, a leader of his ruling Likud party said.

**Ski lift collapses**
Four skiers from Slovenia, the newly-independent former Yugoslav republic, died when part of a chair lift collapsed in the southern Austrian resort of Nassfeld.

**CSCE to gain members**
The Conference on Security and Co-operation in Europe – which includes 36 European states and the US and Canada – is expected to approve the entry of up to 10 members from the Commonwealth of Independent States. Page 2

**Italy's dirty water**
The European Commission has told Italy to tighten drinking water standards in the north of the country or face court action.

**Russians seek funds**
Russia is to ask Switzerland to lift its banking secrecy laws to help it trace funds that disappeared from Soviet coffers around the time of last August's abortive coup.

**ETA suspects held**
Spanish civil guards detained 15 people in a swoop on ETA guerrilla suspects in the Basque province of Vizcaya. ETA has threatened to target this year's Olympic Games in Barcelona and the World Fair in Seville.

**Marcos arrested**
Former Philippine first lady Imelda Marcos was arrested and bailed in Manila on currency charges. She said the move had only increased her chances of winning the presidential elections in May.

**Women priests likely**
The Church of England's ruling body, the General Synod, said it was likely to allow women to become priests.

**IRA rail bomb**
The IRA brought chaos to Belfast rail travel by exploding a bomb on the track near the city's main station.

**N Korea to sign accord**
North Korea will today sign a long-awaited agreement allowing international inspection of its nuclear facilities, South Korean foreign ministry officials said.

**Air traffic plan opposed**
German proposals for a unified air traffic control system in Europe are likely to be opposed by the UK and some other European countries at a March meeting of transport ministers in London. Page 2

**Elephant call**
African states at a summit in Nairobi on ways to save the elephant told international donors they needed more than $230m over the next few years to do the job.

Business Summary

## Bethlehem Steel to axe 6,500 jobs in restructuring

**BETHLEHEM STEEL**, second largest US steel producer, is shedding 6,500 jobs – almost a quarter of its workforce – as part of a big restructuring excercise aimed at stemming losses.

It will also sell or close several businesses and pass its quarterly dividend. The moves mean a $575m charge against fourth-quarter earnings, producing a net loss of $638m. Page 15

**PERRIER**, French mineral water company, hit back against the FFr13.42bn ($2.5bn) hostile bid from Nestlé and Banque Indosuez. Page 15

**LLOYD'S**: By the time 1991 figures come out in 1994, losses at the London insurance market could total the equivalent of the entire membership's accumulated deposits, warns Chatset, a company which analyses syndicates' performance. Page 9

**ANZ**, Australia and New Zealand Banking Group, is topping up its equity base with a one-for-five rights issue aimed at raising almost A$780m (US$586m). Page 18

**MOTOROLA**, biggest US chipmaker, has struck a semiconductor technology deal with Unisys, which will become the biggest computer maker to rely entirely on outside sources for its microchips. Page 17

**WESTINGHOUSE** Electric, US conglomerate hit by bad real estate loans, is virtually halving its dividend to 18 cents and issuing $500m of new stock. Page 17

**PHILIP MORRIS**, US food, drink and tobacco group, improved underlying profits by 21.2 per cent to $4.29bn in 1991, but big charges contributed to net income 15.1 per cent lower at $3bn. Page 17

**W.H. SMITH**, UK book and music retailer, bucked the recessionary trend by raising pre-tax profits by 44 per cent to £50.1m ($90.7m) in the half-year to November 30. Page 16; Lex, Page 14

**INTERNATIONAL Monetary** Fund is poised to approave a $2bn stand-by loan for Brazil. This should pave the way for deals with Brazil's creditors. Page 7

**BCCI**: Hopes that a local Hong Kong bank might buy the local subsidiary of Bank of Credit and Commerce International lessened on news that BCCI's Abu Dhabi owners have not yet provided a guarantee promised last November. Page 4

**UK BUDGET**: UK chancellor Norman Lamont is expected to cut taxes by a modest £1bn-£2bn ($1.8bn-$3.6bn) net in his March 10 budget, according to the independent Institute for Fiscal Studies and Goldman Sachs International, London arm of the US securities house. Page 8

**UK GAS IMPORTS**: British government is lifting its long-standing ban on gas imports. Clearance for two import deals could be announced in parliament as early as today. Page 14

**JAPAN'S** Ministry of International Trade and Industry is set to back an oil and gas project on Russia's Sakhalin island. The project could cost up to $10bn Page 4

**DU PONT**, biggest US chemical group, made a $240m fourth-quarter loss last year after some $469.5m of special charges. In 1990, Du Pont made a $468m fourth-quarter net profit. Page 15

**GARDINER**, UK security products distributor, announced the departure of its finace director and taxable profits far lower than expected at £6m ($10.9m). Page 21

**ALLIED TEXTILE** of the UK reported pre-tax profits slightly down from £13.7m ($24.8m) to £13.2m. Page 20

US budget offers tax incentives and forecasts spring recovery

# Bush seeks to boost economic growth

By Michael Prowse and Lionel Barber in Washington

PRESIDENT George Bush yesterday offered a modest fiscal stimulus to the stagnant US economy and held out the prospect of an economic recovery by spring.

In his $1,520bn fiscal 1993 budget, Mr Bush proposed a welter of tax incentives and challenged the Democrat majority in Congress to pass the measures within 60 days.

The White House strategy relies heavily on a turnround in consumer confidence over the next few months before the presidential election in November, with the option of laying the blame on Congress if growth fails to resume.

The administration projected an increase in this year's federal deficit to a record $400bn. This is the result of the recession and changes in tax withholding rules, which will inject an estimated $25bn of purchasing power into the economy this year.

According to the budget submitted to Congress yesterday, the administration expects growth to resume in the spring and accelerate through the year. Gross domestic product is expected to rise by 2.2 per cent between the fourth quarters of last year and this, rising to about 3 per cent in subsequent years.

Figures from the Commerce Department yesterday, however, showed that the economy was stagnant in the fourth quarter, with GDP growing at an annual rate of a meagre 0.3 per cent, despite a surge in housing and exports.

Mr Alan Greenspan, chairman of the Federal Reserve, told Congress yesterday that he saw "very subtle signs" of improvement and urged lawmakers not to cut taxes.

Mr Bush's growth package includes a temporary tax allowance worth $6bn this year to boost investment, and a cut in the maximum capital gains tax to 15.25 per cent, as well as a $5,000 tax credit for first-time home-buyers. From October, the budget proposes an increase in personal tax exemption of $500 a child. The change would save the typical two-child family $37.50 in taxes this year, and $150 when fully implemented in 1993.

Page 6
■ Commander lacking firepower against recession
■ Approach signals break with Republican past
■ Push to stimulate short-term growth
Editorial Comment: Bush sits it out.......Page 12

The order to lower individual tax withholding rates this year does not require Congressional approval. It provides only a temporary stimulus since the relief would be clawed back next year.

Mr Bush's plans for $50bn cuts in defence spending go beyond reductions already planned over the next five years, and involve cuts in weapons systems such as the B-2 bomber and Seawolf submarine.

Mr Richard Darman, budget director, forecast that the deficit would not fall significantly below $200bn over the next five years. The main reason was uncontrolled growth of mandatory federal entitlement programmes such as pensions and health care for the elderly.

He proposed a new cap on entitlement spending similar to the controls on discretionary spending introduced in 1990 under the budget enforcement act reached with Congress.

Mr Bush's budget sticks to the provisions of the act, which imposes separate caps on defence and domestic programmes, but the president signalled that he would be ready to use defence savings to finance social programmes, especially the child tax credit.

Boris Yeltsin, who said he was prepared to match proposed US arms reductions outlined in George Bush's State of the Union address, meets James Baker at the Kremlin.

# Yeltsin ready to match US nuclear arms cuts

By Lionel Barber in Washington and Leyla Boulton in Moscow

PROSPECTS for early agreement between the US and Russia on eliminating long-range, multi-warhead missiles rose yesterday when a wide-ranging proposal for nuclear arms cuts was unveiled by president Boris Yeltsin.

Mr Yeltsin's offer came in response to proposals by president George Bush in his State of the Union address to Congress on Tuesday, which offered substantial reductions in US air, sea and land-based nuclear forces.

The two leaders are scheduled to hold talks on Saturday at Camp David, and senior US officials expressed confidence that an agreement could be reached covering multi-warhead missiles, the most dangerous, first-strike weapons.

■ Editorial Comment: Deterrence in Europe ...............Page 12

The Russian leader called for an international agency to oversee disarmament and said he would bring to Washington proposals for eliminating thousands of warheads from long-range rockets.

"Proposals have been prepared for deep cuts in strategic offensive weapons ... up to 2,000 to 2,500 warheads on each side," he said, without specifying which rockets could be eliminated.

Mr Bush said in his address to Congress that if Russia and the other nuclear-armed former Soviet republics scrapped all land-based multi-warhead ballistic missiles, the US was ready to reciprocate by eliminating the MX Peacekeeper missile, cutting the number of warheads on Minuteman missiles to one, and reducing by a third the number of warheads on submarine-based missiles.

The proposed cut in the

Continued on Page 14

# Russians urge other republics to join trade zone

By Leyla Boulton in Moscow

RUSSIA yesterday issued an ultimatum to other former Soviet republics either to join a trade, banking and currency union or face a dangerous regime of trade restrictions and higher prices.

Mr Vladimir Mashits, the newly appointed minister for relations with other republics, said Russia had already agreed with Kazakhstan and Belarus to set up a single economic space and rouble zone. Kirghizia would be next on the list.

"With whom else will we sign such an agreement? We'll see. We are ready to have one close group of friends and another not so close."

He said a preferential regime would be open to all republics which:

- Dropped plans to issue their own currencies or surrogate money such as the coupons already produced by Ukraine;
- Agreed on a system of consultation among their central banks;
- Resisted re-exporting cheap Russian energy for hard currency.

The thinly veiled threat of economic warfare if they did not comply reflects in part Russia's desperate need for a clearly defined currency and banking zone so that it can take measures to strengthen the rouble.

Mr Mashits used the particularly tense relationship with Ukraine to illustrate the dangers of a trade war. He said if Ukraine insisted on charging a new high price for its coal of Rbs1,600 a tonne (as opposed to Rbs200), "you can imagine what our retaliatory price will be for oil".

"We will fly into hyperinflation for that reason alone."

Alternatively, Russia could withhold sales of oil to Ukraine – but "that would ruin its economy and we will stop getting metal, coal, and chemical products".

He said his new ministry (employing 700 people, many of them former union experts) would deal with a host of practical problems resulting from the union's collapse. These included dividing up Baltic Sea fishing waters which had been open to all former Soviet citizens.

The tough stance also

Continued on Page 14

Debt accord rejected, Page 2

# Maxwell used MCC funds to win favour with French

By Bronwen Maddox in London and William Dawkins in Paris

MR Robert Maxwell used money from his main public company Maxwell Communication Corporation three years ago to support his political and commercial ambitions in France, according to MCC's auditors.

The new twist marks the first time Mr Maxwell's vigorous attempts to win influence with the French government in the late 1980s have been linked to MCC and to secretive Liechtenstein trusts.

It emerged yesterday that MCC had invested heavily in 1988 in La Dèfense, the prestigious business development west of Paris. MCC's initial investment of £5m-£10m ($9m-$18m) was made through a joint venture called Saga in which MCC held 62 per cent and Caisse des Dépôts, the French state financial institution, the balance.

Saga agreed to invest in the Grande Arche, a white marble cube which is the focal point of the district. Although president François Mitterrand endorsed the building as the symbol of the 1989 bicentenary, the Arche initially proved difficult to let.

Lombard..................Page 13
MCC made big French investment ..............Page 15
Ass brays over silence of the lamb.............Page 21

There is no suggestion that the pursuit of hundreds of millions of pounds missing from the Maxwell empire is connected with the recent financial investigation into some backers of La Dèfense.

Mr Christian Pellerin, a property developer who managed the construction of much of the area around the arch, was charged two weeks ago with aiding and abetting financial irregularities. But he yesterday denied the charges and said he had applied to have them annulled.

It has emerged that MCC sold its Saga holding to Hesto Stiftung, a Liechtenstein foundation. MCC board directors and lawyers, as well as foundation managers, gave written assurances to Coopers & Lybrand Deloitte that Hesto was independent of Mr Maxwell, Coopers said yesterday.

The transactions – £22m in 1990 and £23m in 1991 – were booked as profit by MCC, but payment of the cash was deferred for several years.

According to Coopers, Hesto is included within MCC's debtors in the audited accounts for those periods. All but £1m-£3m of the £45m had been repaid by June 1991. However, MCC is still owed £25m-£30m by Corry Stiftung, a second Liechtenstein foundation used for many MCC overseas transactions.

In a second group of deals, MCC sold portfolio investments to two trusts in the British Virgin Islands called Bantry Bay and Caparra. Investments including a package of stakes in Portuguese companies, are believed to have cost around £10m in 1987, but to have been worth less by the time they were sold to the overseas trusts.



CONTENTS



**India's industrialists brace for shock of competition**

Narashima Rao, India's prime minister, has presided over the most radical programme of economic liberalisation in the country's recent history. Its industrialists may now be in for a shock.
Page 12



MARKETS

**STERLING**
**New York lunchtime:**
$1.804
**London:**
$1.8065 (1.7955)
DM2.8725 (2.8675)
FFr9.7875 (9.7775)
SFr2.56 (2.55)
Y226.5 (225.5)
£ index 91.0 (90.8)

**GOLD**
**New York Comex Feb**
$356.1 (355.9)
**London:**
$355.95 (356.05)

**N SEA OIL** (Argus)
Brent 15-day Mar
$18.05 (18.2)

Chief price changes yesterday: Page 15

**DOLLAR**
**New York lunchtime:**
DM1.5956
FFr5.4325
SFr1.423
Y125.6
**London:**
DM1.59 (1.5965)
FFr5.4175 (5.445)
SFr1.4175 (1.4205)
Y125.4 (125.6)
$ index 62.4 (62.6)
**Tokyo close:** Y125.17

US LUNCHTIME RATES
Fed Funds: $3\frac{7}{8}$%
**3-mo Treasury Bills:**
3.922%
**Long Bond:**
$103\frac{12}{32}$
yield: 7.658%

**STOCK INDICES**
**FT-SE 100:** Yield 4.82
2,546.5 (−5.5)
**FT-A All-Share:**
1,217.03 (−0.2%)
**FT-SE Eurotrack 100:**
1,132.85 (−10.37)
**New York lunchtime:**
DJ Ind. Av.
3,292.26 (+20.12)
S&P Comp
417.47 (+2.51)
**Tokyo:** Nikkei
21,362.26 (−28.26)

**LONDON MONEY**
**3-month interbank:**
$10\frac{5}{8}$% (same)
**Liffe long gilt future:**
Mar $97\frac{5}{16}$ (Mar $97\frac{13}{32}$)

# Irish budget ushers in sweeping tax changes

By Tim Coone in Dublin

THE IRISH budget was presented yesterday as Mr Charles Haughey, still under opposition pressure over his alleged role in a phone-tapping scandal, spent what many expect to his last full day as prime minister.

Mr Haughey, fending off renewed questioning in the Dail (parliament), said only that he expected the Progressive Democrats, the minority partners in his coalition government, to support the budget when it went to a vote late last night.

The Progressive Democrats issued him with an ultimatum last week, calling on him either to resign after the budget or lose their support.

The budget was presented by Mr Bertie Ahern, the finance minister, whose next announcement is widely expected to be whether he intends to enter the leadership race.

Mr Ahern introduced sweeping tax reforms in the budget, involving a significant shift from direct to indirect taxes, the elimination of a wide range of tax reliefs and loopholes, and the simplification of the overall tax structure.

Calling it a "pro-jobs tax reform," he announced a reduction in the basic rate of income tax from 29p to 27p in the punt, and the elimination of the upper 52 per cent rate, leaving only a single higher rate of 48 per cent. Thresholds are also to be raised, which will amount altogether to some I£168m (£156m) in income tax relief.

To balance this, revenue is to be increased by, among other measures, raising the lower 12.5 per cent VAT rate to 16 per cent on a wide range of goods and services, and increasing excise duties on cigarettes by 16p a packet. The upper VAT rate of 21 per cent will remain unchanged.

Overall, government current spending will rise by 6 per cent this year, necessitating an exchequer borrowing requirement (EBR) of 2.4 per cent of gross national product, or I£592m, compared to I£501m in 1991. The rise is within the 2.5 per cent of GNP target set by Mr Ahern last year and is likely to be well received by the financial and business community. Tax revenue will also rise by 6 per cent under the new reforms.

The EBR target slipped last year from 1.9 per cent of GNP as the recession cut tax and excise revenues and increased social welfare spending. Mr Ahern now hopes to achieve a target of 1.5 per cent next year.

The public sector pay bill will increase by 9 per cent this year thanks to awards agreed with civil service unions under the 1990 programme of economic and social progress, although earlier this month Mr Ahern successfully negotiated the deferral of I£100m of the awards until 1993 and 1994.

The motor industry has been given special attention in the budget with a 1.7 per cent reduction in car excise duties and a 9p per gallon reduction in petro taxes. Vehicle road taxes, however, are to be increased by 20 per cent.

Finance minister Bertie Ahern brandishes his budget case on his way to the Dail yesterday

# Berlin warned about city's mounting debts

By Leslie Colitt in Berlin

BERLIN, financially strapped by unification, faces a cumulative debt of up to DM45bn (£15.6bn) by 1995, Mr Elmar Pieroth, the city's finance chief, has warned in a delayed five year budget plan. The city's cumulative debt was only DM18bn in 1990.

Berlin's federal subsidies, covering nearly half the city's budget in past years, are being reduced sharply as are special investment incentives and the German Unity Fund. At the same time Berlin is spending heavily on infrastructure projects in the east of the city.

Mr Pieroth said the city's "new identity" – Berlin is to become the functioning capital of Germany by the end of the decade – has meant a fight for additional funds from Bonn.

The city's budget deficits are expected to rise from DM6.3bn next year to DM9.2bn in 1994 and DM12.6bn in 1995, although new indebtedness is to be reduced from DM5.8bn in 1992 to DM2bn in 1995. Subsidies from Bonn, which will total DM13.2bn this year compared with DM14.5bn in 1991, are to be slashed to DM6.7bn in 1995, on present plans. The city had planned to cut 10,000 municipal jobs this year from the bloated number inherited from east and west Berlin.

Berlin's Chamber of Industry and Commerce expressed doubts that as many jobs as this would be saved, noting that Berlin's level of public-sector employment was far higher than the other city-states of Hamburg and Bremen.

City tax revenues are forecast to rise from DM11bn this year to DM17bn in 1995. This means Berlin would finance 38 per cent of its spending from taxes compared with 27 per cent at present. West German cities finance more than 60 per cent of spending from taxes. Many companies in the city, however, plan to move to surrounding Brandenburg state.

# CSCE to gain up to ten new members

By Robert Mauthner, Diplomatic Editor

THE Conference on Security and Co-operation in Europe is expected to expand its membership significantly following the break-up of the Soviet Union.

However, the admission of Croatia and Slovenia has been blocked by the Yugoslav federal government under the CSCE's unanimity rule. Their entry should have been a formality following their recognition by the European Community. For the moment, the two states will be given observer status, with the possibility of becoming full members later.

The foreign ministers of the security forum – which groups 36 European states and the US and Canada – are meeting in Prague today and tomorrow. They are due to approve the entry of up to 10 members from the Commonwealth of Independent States (CIS).

Russia has already taken over the Soviet Union's seat and the three Baltic states have been admitted. In addition to Ukraine and Belarus, the new members are expected to include several former Soviet republics in central Asia. Kazakhstan, where substantial numbers of nuclear weapons formerly controlled by the central government in Moscow are stationed, had not applied for membership at the beginning of the week, but was expected to do so before the Prague meeting started.

Officials from the other member states were particularly keen to bring Kazakhstan under the CSCE umbrella, even though it has said it wants to become a non-nuclear state. Within the organisation, it would be subject to all the CSCE's arms control and conflict prevention commitments.

Some member states, however, have reservations about letting in some former Soviet republics because they do not yet meet the CSCE's human rights and military confidence-building criteria. Georgia, in the grip of a civil conflict and not in the CIS, and Armenia and Azerbaijan, which are fighting over the Nagorno-Karabakh enclave, fall into this category.

The expansion of the organisation to 48 members has underlined the constraints placed on it by the consensus principle which governs all its decision-making.

With the CSCE's impotence in the Yugoslav civil war in mind, the ministers are expected to discuss how the unanimity rule could be amended to give the organisation a more constructive role in preventing conflicts and ensuring the security needs of its members.

They will also discuss ways of strengthening the Vienna-based Conflict Prevention Centre, set up at the end of 1990, but which has not yet managed to play a significant role.

It is symptomatic of the CSCE's disappointing record so far that the new eastern European democracies such as Poland, Hungary and Czechoslovakia have shown more interest in forging closer ties with their former western adversaries within the new Nato Co-operation Council than in the further development of the CSCE. Though Nato has not offered them full membership, let alone mutual security guarantees, it appears to be seen as a more effective guarantor of European peace than the CSCE.

## Kiev says it will pay its share of Soviet foreign dues independently

# Ukraine rejects joint line on debt

By Chrystia Freeland in Kiev

UKRAINE said yesterday it will pay its foreign debt independently and appealed to the international financial community to help make the appropriate arrangements.

The statement is likely to increase western unease about the division of the former Soviet debt. Last week, German officials threatened that republics which refused to accept "joint and several" responsibility for the debt should be excluded from international financial organisations such as the IMF.

But yesterday the prime minister, Mr Vitold Fokin, insisted that Ukraine would pay its 16.37 per cent share of the Soviet debt independently.

He accused Russia of violating inter-republican agreements on the division of Soviet foreign debt. Mr Fokin also insisted that the Ukrainian National Bank and the Export-Import Bank of Ukraine, which was established to replace Vnesheconombank in Ukraine this month, be allowed to participate directly in international financial institutions and serve as Ukraine's sole international financial representatives.

Mr Fokin appealed to the west for assistance in securing 16.37 per cent of the assets of the former Soviet Union, both at home and abroad. He made particular reference to foreign property, such as embassies, which he said the west should not recognise as belonging to Russia.

The announcement signalled a further deterioration of Ukrainian-Russian relations on the economic front. Mr Fokin accused Russia of illegally taking control of Vnesheconombank, gold reserves and other assets of the former Soviet Union.

Mr Jacques Attali, head of the European Bank for Reconstruction and Development, met yesterday with Mr Fokin, the chairman of the Ukrainian National Bank and other Ukrainian leaders and expressed confidence in their economic reform programme and supported their efforts to join international financial organisations, such as the IMF.

To insulate itself from feared Russian economic retaliation, Ukraine yesterday signed a contract with Iran and Azerbaijan to purchase oil.

# Engineering employers take hard line on pay

By Christopher Parkes

GERMAN engineering employers went on the offensive yesterday with a claim that workers should be prepared to accept a reduction in real incomes this year.

Pay awards had to be related to productivity, expected to increase by 2.5 per cent, and not inflation, forecast to average 4.5 per cent, according to Mr Dieter Hundt, president of the Baden-Württemberg metal industries employers' association (VMI).

Speaking in Stuttgart, he called for a change of course in pay policy, and said the 9.5 per cent claim from the IG Metall union greatly worsened the prospects for a peaceful solution to this year's negotiations.

The VMI, which employs 700,000, is traditionally the first engineering employers' group to start pay talks. This year's round begins on March 17.

IG Metall represents around 4m workers in manufacturing industry, which has seen domestic orders tail off and low overseas demand.

# Novel German plan to finance roads

By Christopher Parkes in Bonn

THE German government is to try hire purchase as a way of paying the estimated DM100bn (£34.8bn) bill for transport links in former East Germany.

In a renewed discussion on the private financing of public works, the cabinet yesterday rejected toll-roads as "counter-productive", and decided that leasing of railways and roads from private consortiums was "unsuitable".

It chose instead to test what it called a "concessionary" model, in which private groups will finance and build projects on the government's behalf. Bonn will then buy them back, paying in instalments.

The idea, which will spread the costs over an as-yet-unspecified period, is to be tested on two projects in the west of the country – a DM3bn stretch of railway between Munich and Nuremberg, and a road tunnel on the A81 autobahn near Stuttgart.

Mr Günther Krause, transport minister, was yesterday commissioned to draw up draft contracts in preparation for a call for tenders.

The timing of these is uncertain. A government spokesman said only that the cabinet would return to the subject this summer. However, the need is urgent. The lack of western-standard communications is seen as one of the main obstacles to economic recovery in former East Germany.

Government resources, meanwhile, are stretched to the limit by other unification costs. Bonn is also committed to containing public borrowing, which is currently growing faster than gross national product.

Official estimates say that DM100bn will be needed between 1995 and 2000 for urgent transport infrastructure. Unofficial figures suggest the cost of bringing transport systems up to western standards could be DM200bn.

Mr Krause, who had been eager to try gathering revenue at toll booths was told they would be counter-productive. Construction would be too costly and would interfere with traffic flow, and the tolls would also be unpopular with the public which believes it is already being asked to pay too much to support development in the east.

# EC agrees legal safeguards for electronic databases

By Andrew Hill in Brussels

DRAFT legislation to provide EC-wide legal protection against the international piracy of electronic databases was approved yesterday by the European Commission.

The "ground-breaking" draft directive – modelled on existing Scandinavian legislation – adds to the growing body of agreed or draft EC legislation on intellectual property, including last year's directive aimed at fighting piracy of computer software.

Within the next fortnight the Commission is also likely to propose harmonising copyright protection for original work. According to officials, Brussels is considering fixing the duration of protection at 70 years, a compromise between the widely different regimes in the 12 member states.

The directive approved yesterday would introduce a new type of intellectual property right, protecting producers of databases – computerised lists of addresses, for example – from unfair copying of the contents of their databases for 10 years. The measure leaves aside the question of personal data protection, which is the subject of a controversial draft directive now being discussed by the European Parliament.

Database producers, which include large publishers and direct marketing organisations, believe the directive may also help liberalise the Ecu2.5bn (£1.75bn) European market. It would allow competitors wishing to re-use such information commercially to obtain compulsory licences "on fair and non-discriminatory terms".

Mr Tony Coad, managing director of the British group NDL International, which holds databases for UK manufacturers and retailers, said yesterday: "I can see this could be a genuine attempt to break down data monopolies, which can be very powerful."

The World Intellectual Property Organisation is already considering amending the Berne Convention on intellectual property to cover databases, which are not considered original enough to qualify for normal copyright protection. But EC officials said they were unsure how long such moves would take, and in any case they needed to introduce harmonised measures before the introduction of the single European market at the end of this year.

# Kohl will sign pact with Prague

By Quentin Peel

CHANCELLOR Helmut Kohl will travel to Prague at the end of next month to sign a controversial co-operation treaty with Czechoslovakia, in spite of strong conservative opposition in Germany.

The treaty was approved by the German cabinet yesterday, along with a similar treaty with Hungary – but only after the chancellor had given the assurance that he would raise the question of property rights for former Sudeten Germans on his trip to Prague.

Properties once owned by Germans in the former Sudetenland are currently being sold off, according to reports in Germany, and the former owners are demanding a right to participate.

The issue has caused an embarrassing delay in ratifying the friendship treaty.

Mr Kohl has already agreed to support a joint resolution in the Bundestag backing the property claims of the Sudeten Germans, but has refused to agree to any changes in the treaty itself.

# Commission challenges film grants

By Andrew Hill in Brussels

GERMAN AID for the film industry discriminates against foreign film-makers, according to the European Commission, which has given the German government a month to answer its complaints against the subsidy programme.

Directors of films which receive government grants have to be German or "from a German cultural background". The same conditions apply to some of the jobs on co-productions between German and foreign film-makers.

The Commission approved the German aid scheme six years ago, but warned the government it would have to remove the nationality restrictions by the end of 1992.

But Bonn has just proposed extending the programme (including the restrictions) for a further six years.

● Brussels has asked Bonn to lower the level of aid available on applied research contracts granted to companies in the five new La"nder (states) in what was east Germany.

It says the maximum subsidy level of 50 per cent for each contract is too high. European Commission guidelines recommend a 25 per cent aid ceiling for applied research.

# Bonn promises tax and subsidy reform

By Quentin Peel in Bonn

PROPOSALS for cuts in corporate taxation and reductions in state subsidies will be presented by the German government in the coming year, Mr Jürgen Möllemann, the economics minister, said yesterday.

Action was needed to preserve the competitiveness of the German economy and stabilise state spending, while also supporting the former east German economy, he said, in a cautious forecast in the government's annual economic report.

He called for tax cuts to bring down the marginal rates of income tax and corporation tax from 53 to 46 per cent, and promised a corporation tax reform package in the course of the year.

He also promised a package of subsidy cuts, prepared by the economics and finance ministries, in time for the start of the annual budget negotiations in June.

He warned that a failure to keep wage awards below the levels of 1991 could actually result in higher, rather than lower interest rates.

His warning coincided with a gloomy prognosis by Mr Lothar Müller, head of the Bavarian state central bank and a member of the board of the Bundesbank, that the German economy would not allow interest rates to be cut by the central bank at least until the end of the summer.

The government's annual economic report forecasts an overall German growth rate of just 2 per cent for 1992, with the former West Germany growing by only 1.5 per cent, and the east by 10 per cent – after its economic collapse of the past two years.

It suggests that unemployment will rise by 100,000 to 1.8m in the west, a rate of 6 per cent, compared with a 500,000 rise, to around 1.4m, in the east, or around 17 per cent.

It is more optimistic on inflation than independent economic forecasts have been, suggesting 3.5 per cent for the year as a whole in the west, and 12 to 14 per cent in the east. Wage rises it hopes will keep to an average rise of just 5 per cent in the west, compared with 6.7 per cent in 1991, and trade union demands of around 10 per cent. In the east, wages are expected to rise between 30 and 35 per cent.

# Russia to step up supplies of gas to Poland

By Christopher Bobinski in Warsaw

RUSSIA has agreed to increase natural gas deliveries to Poland from Monday following a sharp drop in supplies which caused heavy industry to cut output severely.

After meetings in Moscow with Polish officials, the Russians confirmed that 5m tonnes of oil would be delivered this year. Gas deliveries would reach 6.6bn cubic metres, but the Poles want to match last year's deliveries of 7.1bn cu m.

The break in supplies occurred after a decree by President Boris Yeltsin invalidated a $2.8bn barter agreement signed on December 24 between the two nations.

# Gallup tunes into Russian television viewing habits

By Raymond Snoddy

GALLUP, the international polling organisation best known for trying to predict the outcome of elections, is turning its attention to television viewing habits in Russia and other former Soviet republics.

The company announced yesterday in London and Moscow that it was setting up modern ratings research for a market of more than 300m viewers. The Russian Media Monitor will be based on a panel of 6,000 viewers who will keep a diary of the programmes they watch.

The main purpose of the monitor is to see how western-sponsored programmes and advertising are received in the Russian television market. One of the first programmes to be assessed in Russia will be the BBC documentary series "The Second Russian Revolution" sponsored by Upjohn, the pharmaceutical company.

The launch coincides with several programme sponsorship campaigns aimed at Russia, including the world music series "Mega Mix", sponsored by Mars International, and a series of rock music concerts sponsored by Pepsi-Cola.

Mr Gordon Heald, managing director of Gallup (UK) said yesterday: "It's a breakthrough in this territory, following years of unstructured market analysis". The monitor is a joint venture between Gallup, BBDO, the international advertising agency, and Invizible Arts, a sponsorship agency.

## Hungary to apply to join EC in the spring

HUNGARY intends to apply formally to join the European Community this spring, Mr Mihaly Kupa, finance minister said yesterday during a visit to Stockholm, Robert Taylor reports.

"Our ambition is to negotiate alongside Sweden and Austria and become an EC member by 1996 at the latest," he said.

It is unlikely the Commission will treat Hungary's request seriously. Brussels does not see EC membership for Hungary, Poland, and Czechoslovakia before 2000.

# Rebel Serbs endanger UN peacekeeping plan

**Judy Dempsey** in London and **Laura Silber** in Belgrade on the decision facing the Security Council tomorrow

A DECISION by the United Nations Security Council to send UN peacekeeping troops to Croatia hangs in the balance because rebel Serb leaders oppose deployment of troops.

Western diplomats in Belgrade said yesterday the security council, which is expected to meet tomorrow, will be given a less than optimistic report by Mr Cyrus Vance, the UN's special envoy to Yugoslavia.

Although the 15th ceasefire, brokered by the UN early this month, has generally held in Croatia, several elements still stand in the way towards the deployment of 10,000 UN troops. One is Mr Milan Babic, leader of the self-proclaimed Serbian republic of Krajina, southern Croatia.

Mr Babic, catapulted into power by Mr Slobodan Milosevic, the president of Serbia, does not want the Yugoslav federal army to be withdrawn from Krajina, and replaced by UN troops. Nor does he want local Serb paramilitary units to be disarmed, despite Mr Milosevic's support for the peace plan.

Under the Vance plan, the federal army – which, along with Serb militants controls a third of Croatia – will withdraw from all Croatian territory; and all paramilitary forces, including Serbian units, will be disarmed. The regular Croatian army will be required to return to barracks.

Mr Lazar Macura, Krajina's minister of information, recently said the Serbs would not give up their weapons. To complicate matters, local Serbs from Krajina make up 80 per cent of the army in that region, which means that practically no withdrawal by the federal army to areas outside Croatia would take place.

Mr Babic opposes withdrawal of the federal army from areas in Croatia where the Serbs are in a majority before the status of the Serb communities in Croatia has been defined. These regions include Krajina, and the Baranja and western Srem which are in eastern Slavonia, in the east of the republic.

Mr Babic wants the Serbs in Croatia to be able to opt out of an independent Croatia.

In addition, Mr Goran Hadzik, head of the Serbs in eastern Slavonia, and Mr Babic, are seeking guarantees against Croat reprisals when UN troops leave the republic.

The UN troops are expected to stay six months, and the regions to which they will be deployed will have the status of protectorates.

Western diplomats fear that if no political solution on Croatia's borders and the status of the Serbs in Croatia is reached within that period, civil war will return.

Croat officials said the deployment of UN troops would give them time to re-establish law and order and try to regain control over the entire territory. Any deployment might allow presidential and local elections to take place.

Mr Franjo Tudjman, the president of Croatia, wants presidential elections as soon as possible to capitalise on his success in attaining international recognition.

The other, and less predictable element which could destabilise the Vance plan is the federal army. So far, the army, under General Blagoje Adzic, a Serb nationalist, has endorsed the peace plan. But it remains unclear what role will be played by General Ratko Mladic, head of the federal army in Krajina, or General Vladimir Vukovic, commander of the Banja Luka garrison in northern Bosnia-Hercegovina, in persuading Mr Babic to accept the plan.

"The army continues to play a crucial role," said Mr Haric Silajcic, the foreign minister of Bosnia-Hercegovina. "Its relationship with both Mr Milosevic and Mr Babic must not be underestimated. The situation remains highly unstable."

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## WORLD TRADE NEWS

# EC food credits to Moscow hit by delays

By David Buchan in Brussels, Leyla Boulton in Moscow and Quentin Peel in Bonn

POLITICAL confusion in Moscow, compounded by wrangling between the European Commission and bankers in both east and west, has seriously delayed use of the EC's Ecu 1.75bn (£1.24bn) food credits for ex-Soviet republics.

The longest delay concerns the Ecu500m credit guarantee. It was agreed by EC leaders in December 1990, formally signed last November, but has since run into problems. Counting on this credit, a few Western exporters and Russian importers started shipments last month, and many more have contracts ready for delivery before end-February.

"There is no doubt in my mind that some (European) traders are in difficulty and are losing money," said an EC official yesterday. Meanwhile, the Russians are wondering where their EC food is, just when the EC has been vaunting its predominant share in worldwide aid to the Commonwealth of Independent States (CIS). By contrast, US food credit to the CIS seems to be moving smoothly.

There is less controversy over the direct EC food loan of Ecu1.25bn to which EC ministers gave the go-ahead last month, though this, too, has hit problems. The EC has decided to disburse this to individual CIS states, with a first Ecu500m slice going to Russia. But it refuses to pay over this tranche until Russia produces a financially satisfactory agent for the loan and agrees to waive its sovereign immunity and submit to any dispute to outside arbitration.

More troubled has been the history of the Ecu500 commercial bank credit which the EC promised to guarantee more than a year ago. "We lost seven or eight months last year," an EC official said, due to a variety of factors. Strong-arm Soviet tactics in the Baltic region last spring caused the European Parliament to delay approving the credit guarantee. Last summer, some banks defected from the Deutsche Bank-led credit syndicate. It was only two months ago that the complex web of EC-Deutsche Bank-Vneshekonombank agreements were finally signed.

But Vneshekonombank, the foreign trade bank of the old Union, failed to ask to draw down the loan until after Christmas, by which time the Soviet Union had folded. And, when at the turn of the year, Vneshekonombank paid all the fees and asked for the money, the Deutsche Bank consortium had fresh doubts about the former's status.

The Brussels Commission has since strongly urged speed on Deutsche Bank. EC officials believe that with Brussels guaranteeing 98 per cent of a loan, which includes a large, fixed rate interest amount, the commercial banks have little cause for fear. Only Ecu370m of the Ecu500m will be available for actual CIS food purchases; the other Ecu130m is to cover interest and freight charges.

But a Deutsche Bank official said yesterday that, according to decrees this month of the Russian Supreme Soviet, Vneshekonombank was no longer legally able to take on new loans, but was merely an agent for servicing old debts. Representatives of several ex-Soviet republics were meeting in Moscow yesterday to plan future borrowing.

# Miyazawa confirms US car parts pledge

THE Japanese prime minister, Mr Kiichi Miyazawa, has changed his stance and said Japan had promised after all to increase purchases of US car parts, Reuter reports from Tokyo.

Americans and the US Congress reacted with fury after Mr Miyazawa said last week that a $19bn (£10.4bn) figure for US car part purchases by Japanese car makers was a target and not a firm promise.

But yesterday in parliament Mr Miyazawa said: "The government will endeavour to sincerely fulfil its promise to the United States." He was replying to a question on whether the $19bn figure was a target or a promise.

"We had each of the (Japanese) car makers come up with quite firm calculations (regarding the volume of car parts they will import) by 1994-95 ... so I believe that each firm will sincerely buckle down to realise (the plan)," he said.

The pledge to raise US car part imports from the current $9bn level was included in a US-Japan statement unveiled at the end of President George Bush's visit to Tokyo.

US politicians, eager to denounce Mr Bush's trip as a failure, seized on Mr Miyazawa's remark on January 21 as evidence that Japan was backing off from alleged pledges.

■ Mr Jacques Calvet, the chairman of French carmaker Peugeot, said the European Community should refuse to ease barriers to Japanese car imports until Tokyo takes steps to lift its citizens' living standards, Reuter reports from Paris.

"We should not indefinitely put up with Japan's economic power if it has not shared (its wealth) with those who created it," he told a parliamentary commission. Mr Calvet is a steadfast critic of a Japan-EC car accord reached last year that will remove existing EC obstacles to Japanese car imports in the year 2000.

# Japanese industrialists urge India to extend its reforms

A JAPANESE business mission has asked the Indian government to extend its economic reforms and remove all restrictions on foreign equity, writes K K Sharma in New Delhi.

India last year liberalised its foreign investment policy and now permits foreign companies to hold a majority 51 per cent share in joint ventures, an improvement on the previous ceiling of 40 per cent.

The Japanese mission, led by Mr Roburo Ishikawa, chairman of the Japan-India business co-operation committee, wants all restrictions on investment removed. It has pointed out that other countries have removed such restrictions and if India wants foreign investment, it must be competitive and offer matching conditions.

The group of 50 Japanese industrialists also wants links between profit repatriation and export earnings removed, easier imports of capital goods and a revision of the foreign exchange rules.

# French invest more in Polish TV tube factory

THOMSON Consumer Electronics, the French state-owned maker of audio-visual products, is to invest $100m (£55.2m) in Poland over the next three years as part of its strategy to enter low labour cost areas, writes William Dawkins in Paris.

The cash will be used to boost capacity at a television tube making joint venture, Thomson-Polkolor, in a suburb of Warsaw.

The aim is to produce 3m tubes annually there from 1993, a huge increase in present capacity.



# Franchise pact signed for Texan railway

A $6bn (£3.3bn) high-speed rail network in Texas has come a step closer after the signing of a 50-year franchise agreement authorising the construction and operation of the proposed 622-mile network, writes Andrew Baxter.

The network would be the first high-speed rail system in the US, and would link Fort Worth, Dallas, Houston, San Antonio and Austin with trains running at more than 200mph. Earlier this week the Texas High-Speed Rail Authority authorised a corporation recently established by the Texas TGV Consortium to plan, finance, construct, lease, operate and maintain the system.

It is still not certain, however, that the privately-financed project will go ahead. Contracts are not expected to be awarded until 1994, and the first phase of the the system would not be open until 1998.

# Fears over 'Gattzilla the trade monster'

## US greens lead a growing lobby worried about loss of sovereignty, writes Nancy Dunne

TO THE list of US opponents to the proposed reforms for the Uruguay Round – the textile, clothes and film industries, organised labour and family farmers – add the environmentalists.

The Green view of the General Agreement on Tariffs and Trade (Gatt) is succinctly expressed on thousands of anonymously produced posters littering the streets of Paris, Tokyo and Washington, featuring a monstrous Gattzilla devouring the globe, smashing the Capitol building, spilling DDT with one hand and squeezing a dolphin to death with the other.


The environmental lobby was split over the North American Free Trade Agreement, but on the Gatt it is presenting a near-solid front. Twenty-eight environmental and consumer groups have sent letters to every member of the US Congress opposing the proposed sanitary and phytosanitary standards in the draft agreement produced by Gatt director-general, Mr Arthur Dunkel.

The US lobby's lawyers warn that the language in the draft threatens federal and state environmental regulations if they are more stringent than the international standards set out in the Rome-based UN commission Codex Alimentarius. The opposition – in an election year when every politician from George Bush on down tries to campaign as an environmentalist – could do great damage to the support for any agreed Gatt package. Fears concerning loss of sovereignty over the environment in addition to those on national dumping laws might, at the very least, doom the Multilateral Trading Organisation (MTO), which has been designed to strengthen Gatt enforcement of trade rules.

Almost 50 congressman have signed or plan to sign a resolution sponsored by Mr Richard Gephardt, the majority leader in the US House of Representatives, which says that under the Dunkel plan "national sovereignty to set domestic environmental, health, safety and labour standards will be given away to foreign countries".

US environmentalists are still steaming over a Gatt panel's rejection of the US ban on Mexican tuna, designed to protect dolphins. While trade purists in Geneva may have welcomed the ruling for its assertion that the US has no right to exert extra-territorial authority, Washington viewed it with alarm.

What may seem crusading and sanctimonious to some is regarded by environmental activists as a US duty to exercise leadership and to use its large market to protect the environment. Just as it would prohibit the import of cars which pollute or clothes made by slave labour, Ms Lori Wallach, a lawyer form Ralph Nader's Public Citizen organisation, says the US should be able to dictate the process by which fish are caught. No effective environmental or social régime can be established through the use of moral persuasion alone, she contends.

Ms Wallach and other environmentalists were alarmed by Mr Dunkel's speech last week in Bangkok, which suggested that rules initiated by countries under international environmental agreements could be subject to Gatt challenge. There was little reassurance in his contention that a member country "may" be permitted to place public health or safety or conservation goals ahead of trade restrictions or that the environment could be recognised only as "possible" justification" for regulatory standards.

Environmental lawyers have held countless meetings with US officials to explain their concerns, only to have every objection ignored.

They have found themselves closer to European Community positions than to their own government's, supporting the EC effort to win approval for health and safety measures designed for social objectives like animal welfare.

While the Washington-based Worldwide Fund for Nature has yet to express itself against the Dunkel draft, when its staff met to discuss its implications, members were in agreement on one point: ceding US sovereignty to an MTO was too important a move to be attached to the fast-track mechanism, which provides for limited debate and a take-it-or-leave-it vote. Mr Stewart Hudson, a spokesman for the National Wildlife Federation, said his organisation has also been dubious about the MTO, but opposition in Congress is already so strong that the question of getting an MTO approved is now "almost moot".

The National Resources Defence Council supported the US administration on the North American Free Trade Agreement and it worked bard to try to get a Gatt pact. However, it said it cannot accept, among other things, a requirement that technical regulations should "not be more trade-restrictive than necessary". The Gatt was not to be left "to determine whether particular conservation or public health measures are the preferred or the only means of achieving protection".

Along with these concerns, environmentalists have conceived a distaste for what seems to them the undemocratic Gatt practice of behind-doors negotiation. Ms Wallach says these talks shut environmentalists out of the decision-making process, while their business opponents are heavily represented on advisory groups.

"We see the Gatt as fundamentally flawed," she said. "It looks only at the side of business interests who think only of trade liberalisation. We represent other values, but we don't even get to see what the US is doing."

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# Coca-Cola to expand Irish plant

By Tim Coone in Dublin

COCA-COLA yesterday announced a I£27m expansion plan for its drinks concentrate manufacturing plant at Drogheda in Ireland, which is operated by a subsidiary, Coca-Cola Atlantic.

Construction work is to begin immediately, and the plant is expected to be operational by the end of the year.

The Drogheda facility is already Coca-Cola's largest concentrate manufacturing plant in Europe, and supplies bottling plants in 70 different countries.

Mr Ray McReave, the general manager of Coca-Cola Atlantic, said: "Much of the Coca-Cola company's success in expanding to meet the needs of growing markets in Europe is as a result of the high standards achieved in the Drogheda operation".

A spokeswoman for Coca-Cola Atlantic said the expansion was a "significant one", but would not give details of expected increase in turnover "for competitive reasons". She said, however, that Coca-Cola's market has been expanding at 9 per cent a year over the past five years, and the company's main market opportunities "are in Eastern Europe, the Middle East and parts of Asia".

Tokyo may act despite unresolved Kuriles dispute

# Japan likely to support Russian oil, gas venture

By Steven Butler in Tokyo

JAPAN'S Ministry of International Trade and Industry (Miti) is set to further relax a long-standing policy against supporting Russian development projects by providing financial backing for an oil and gas project on Russia's Sakhalin island that could cost up to $10bn (£5.7bn).

A consortium, including Mitsui of Japan and Marathon Oil and McDermott International of the US, was awarded a letter of intent to conduct a project feasibility study on Monday.

Government backing is crucial because of the inherent high-risk nature of oil and gas development coupled with political uncertainties and the long-term credits that would be required. Purely commercial finance for the Sakhalin project could be prohibitively costly, if available at all.

Japan has long refused to back Russian development projects because of its territorial dispute involving the four Kurile islands off the northern coast of Hokkaido.

Miti, however, has taken the view that the Sakhalin project is of national importance to Japan, although it is seeking ways for the partially government-owned Sakhalin Oil Development Corporation (Sodeco) to participate in the development. Sodeco was part of a consortium including

**Purely commercial finance for the Sakhalin project could be prohibitively costly, if it is available at all.**

Exxon of the US and C. Itoh of Japan which failed to win a bid for the feasibility study.

Mitsui said yesterday it was confident of receiving support from the Japanese government, and was also hopeful of obtaining US government backing for the project. A Mitsui executive said preliminary studies indicated the project would be feasible if oil prices stayed above $15 a barrel.

The formal feasibility study is to be completed by the end of next year, with first oil production hoped for around 1995. Projected oil production would cover the cash-flow requirements of the project, but eventually gas production would be required to assure a profit, Mitsui said. The fields, Piltun Astoskoye and Lunskoye, off the east coast of Sakhalin, have reserves estimated at 730m barrels of oil and 400bn cubic feet of gas.

The possibility of building a gas liquefaction plant at the site is under consideration. Liquefaction plants, however, are difficult to finance and would require advance sales.

The Sakhalin project could be the first of a wave of resource development projects in Siberia with extensive Japanese participation. Japan has long looked at Siberian resources as a possible avenue to diversify dependence on other sources of raw materials, particularly Middle Eastern oil.

But future Japanese support for such projects may depend on progress in the territorial dispute with the newly independent Russian government.

# Israel to sell chemical group stake

By Hugh Carnegy in Jerusalem

ISRAEL'S slow-motion privatisation programme is poised to take an important step forward following unanimous approval by the Knesset finance committee yesterday for the public flotation of a 25 per cent share in Israel Chemicals Limited (ICL).

The committee has an effective veto over the sale of state companies.

An attempt in 1989 to sell to foreign investors a 50 per cent stake in ICL, always regarded as the premier privatisation prospect among the state's 150 companies, was blocked by the finance committee, throwing the government's privatisation plans into disarray.

The delay has taken on added significance recently, becoming a principal element in US criticism of the state-heavy economy as Washington assesses Israel's request for $10bn (£5.57bn) in loan guarantees to aid Jewish immigration from the former Soviet Union.

The 1989 Knesset committee decision forced the government to adopt a less ambitious programme based initially on share issues on the Tel Aviv Stock Exchange. Minority stakes in companies such as telecoms monopoly Bezeq have been sold this way. But the failure to fully divest control of any significant company has led to criticism that genuine privatisation has been thwarted.

After the initial ICL sale approved yesterday, the government intends to go on to sell a total of 72 per cent of the company, said to be worth up to $1.4bn, by the end of this year, including private placement of a 15 per cent block.

Mr Avraham Shochat, a prominent member of the finance committee, said yesterday events had proved its 1989 decision correct, because at the time the company had been undervalued by the government – and because among the leading bidders at the time was the late British publisher, Mr Robert Maxwell.

"We can only imagine what would have happened if ICL shares had gone the way of the rest of Maxwell's assets," he said.

# Iran denies hiring Soviet nuclear experts

IRAN yesterday denied reports alleging it was recruiting scientists from the former Soviet Union for a covert nuclear weapons programme, AP-DJ reports from Nicosia, quoting a monitored broadcast by Tehran radio.

An unidentified foreign ministry spokesman was reported as saying the reports were "totally baseless".

British newspaper reports suggested last weekend that Tehran was offering $360,000 to former Soviet nuclear scientists to develop an alleged nuclear arms programme.

Earlier reports have alleged that the Iranians had bought nuclear bombs from the newly independent republics and arranged for them to be shipped to Iran. Iran has denied those reports.

The Iranian spokesman stressed that Iran was a signatory to the Nuclear Non-proliferation Treaty, and that it was "also one of the most active non-aligned countries concerning proliferation of weapons of mass destruction".

Iran has two nuclear power plants, a small research reactor bought from the US before the revolution and installed at Tehran University, and a second research reactor recently purchased from China.

Iran is believed to be about a decade away from being able to build a nuclear weapon.

Experts say Iran already has several scientists capable of manufacturing the bomb. They say its main impediment is lack of enriched fissionable material, the vital ingredient needed to start off the chain reaction which causes an atomic explosion.

There have been unconfirmed reports that Iran has been trying to acquire enriched uranium from France and a handful of third world countries that have nuclear plants capable of enriching uranium to the necessary purity.

● Iran's non-oil exports more than doubled in the last nine months of 1991, the Iranian news agency, IRNA, reported yesterday, Reuter reports from Nicosia.

The agency, quoting Mr Abdolhossein Vahhaji, the commerce minister, said exports rose by 110 per cent to $1.85bn in the nine months to December 21.

# India and Israel in diplomatic link-up

By Hugh Carnegy in Jerusalem

INDIA said yesterday it was establishing full diplomatic relations with Israel for the first time, completing the Jewish state's links with Asia's two most populous nations, after a similar decision by China last Friday.

The development has evoked satisfaction in Israel. Premier Yitzhak Shamir noted this week that a long period of diplomatic isolation for Israel was ending. In the past few months, most Arab countries have engaged Israel in peace talks. The former Soviet Union, as well as China and India, all backers of the Palestine Liberation Organisation, have set up diplomatic ties, despite Mr Shamir's unyielding policies towards the Palestinians.

India, which built a close relationship with the PLO based partly on its leading role in the non-aligned movement, apparently saw little point in continuing to shun Israel. India may also have its eye on improving ties with the US, Israel's main ally.

Meanwhile, working groups to discuss Mid-East dissarmament, economic development, water and the environment are expected to convene this spring in Europe, the Middle East, Japan and the US. Agreement on more detailed talks about regional issues involving Israel, its neighbours and other nations was reached at the multinational forum, which concluded in Moscow yesterday.

The Palestinians, excluded from the forum, want the issues of Jerusalem and human rights addressed in working committees set up under the multilateral umbrella.

● Mr Shamir agreed in principle with the opposition Labour party yesterday to hold a general election on June 23, Reuter reports. A Labour party spokesman said the agreement would have to be approved by Labour leaders tomorrow.

# Kenya set to import huge food stocks

KENYA will have to import huge stocks of food after poor 1991 harvests, according to the United Nations Food and Agriculture Organisation (FAO), Reuter reports from Nairobi.

"Following this poor harvest, substantial imports of maize will be needed in 1992... Imports of about 280,000 tonnes of wheat and rice will also be necessary," said an FAO report yesterday.

This will be the first time Kenya has been forced to import food because of shortages since a crisis in 1980-81. The FAO said 57,000 tonnes of food promised by donors had already been delivered.

The FAO said emergency relief food might be needed in drought-hit areas of the east and northeast of this former British colony of 24m people. This included relief assistance to some 60,000 Ethiopian and Somali refugees in the country.

The figures coincide with price rises and rationing of basic goods such as sugar, tea and milk.

Political analysts said the food shortages and higher prices could stoke tensions as the east African nation prepares for multi-party elections later this year, the first since 1966.

# Australian inflation falls to 30-year low at 1.5% a year

By Emilia Tagaza in Canberra

AUSTRALIA'S rate of inflation fell to 1.5 per cent a year in the December quarter of 1991,the lowest in almost 30 years.

The underlying rate, which excludes volatile and seasonal factors, also dropped to 3.4 per cent in the December quarter from 3.7 per cent in the previous quarter.

In quick reaction to the official figures, Mr Paul Keating, the prime minister, foreshadowed extra government spending within the current fiscal year. The additional spending is expected to be announced in an economic statement next month.

Citing a survey by the National Australia Bank showing Australian companies to be operating at only 76 per cent of capacity, Mr Keating said there was scope for fiscal expansion.

"Given the level of capacity and the state of the economy, there is minimal risk on inflation and demand if we stimulate the economy," he said.

Mr Keating has been under severe pressure from business and trade unions for some pump priming. During meetings last week with private business, he was urged by the big banks to spend between A$1.5bn ($1.122m) and A$2bn on new government projects. The meetings were designed to get private business inputs to the February economic statement.

A spending increase would result in a further revision of the 1991-92 budget deficit. Earlier this month, Mr John Dawkins, the treasurer, announced an increase in the budget deficit from A$4.7bn to A$5bn.

Yesterday's announcement said the low inflation figure was due mainly to a decline in housing costs brought on by mortgage interest rates that have fallen by 12.6 percentage points since the December quarter, 1990. Petrol prices also dropped by 16 per cent from the high levels during the Gulf crisis 12 months ago.

HUNDREDS of trade unionists demonstrated outside Hong Kong's legislature yesterday, demanding that the government drop plans to import workers to ease the British colony's labour shortage, Reuter reports from Hong Kong.

Chan Yuen-Han, a member of the Federation of Trade Unions' standing committee, said many of the 500,000 workers represented by the demonstrators would strike if the government did not give in. He said unions would set up a strike fund and organise another rally after the Chinese New Year.

The government, under pressure from employers to ease the labour shortage they say is feeding the colony's double-digit inflation, last month raised the ceiling on workers to 25,000. Many of the existing 13,000 come from across the Chinese border.

About 600 unionists waved banners, shouted slogans and cheered speeches by unionists outside the Legislative Council (Legco) building. Legislators inside were due to debate a motion calling for a review of the two-year-old policy.

Unions oppose the scheme saying it would lower wages and put many people out of work.

# Zimbabwe in IMF loan deal

ZIMBABWE has agreed terms with the International Monetary Fund (IMF) on an SDR344m (£269m) three-year loan in support of the government's 1992-94 economic reform programme, Our Foreign Staff report.

The accord, announced by the IMF this week, provides for tightening of fiscal and monetary policies, a competitive exchange rate, and what the Fund describes as "a major liberalisation of external trade, domestic prices, investment and labour regulations, and financial markets".

The government had hoped to avoid seeking IMF funding, but a deterioration of the balance of payments had left the authorities with no alternative.

# Burma's military junta cracks whip

BURMA'S military junta has ordered university and college teachers to take courses in enforcing discipline following renewed student protests last year, Reuter reports from Bangkok.

Inaugurating the courses earlier this week, Major General Khin Nyunt, the military intelligence chief, said: "Upon reviewing the December student unrest, we find weaknesses among teachers in giving guidance and organising their students, and conclude they were unable to take pre-emptive action."

State radio broadcast his speech in Paunggyi, a town north of Rangoon, and a transcript was seen in Bangkok yesterday.

Khin Nyunt said the courses were for university and college teachers throughout the country to teach them patriotism, support for the junta's policies and how to maintain good behaviour among students.

"The courses will stress man-management, man-control, discipline, leadership, morale," he said.

Students at Rangoon University demonstrated for two days in early December calling for democracy and the release of Nobel Peace Prize-winner Aung San Suu Kyi, whose National League for Democracy won a landslide victory in the May 1990 general election.

The junta responded by closing down colleges and universities throughout the country. They had reopened only seven months earlier following a closure of nearly three years because of a student-led pro-democracy uprising in 1988.

Khin Nyunt said the latest demonstrations were instigated by both left-wing and right-wing politicians backed by imperialists abroad.

The courses would remind teachers of the "oppression and servitude under imperialism" and why the junta took power.

The military crushed the 1988 protests, killing thousands. It has since ignored international calls to cede powder to the National League for Democracy.

Khin Nyunt said the junta would "never negotiate with the imperialists and their lackeys and minions, and will never submit to them".

# North Korea rejects N-inspection

NORTH KOREA yesterday rejected a South Korean proposal for early inspections of suspected nuclear facilities in both Koreas, South Korean officials said, AP reports from Seoul.

But North Korea said the issue could be discussed after a meeting of the South and North Korean prime ministers scheduled for February 18-21.

The Communist government's move amplified worries in the south that the north was trying to gain time to develop nuclear arms.

A South Korean newspaper yesterday quoted an unidentified government official as saying intelligence reports indicate North Korea may be able to start reprocessing nuclear fuel as early as May. Once reprocessing begins, there is a danger North Korea could hide its nuclear weapons programme, the paper said.

"Concerns are being raised because the north expressed its intention to refuse pilot inspections," Mr Lee Dong-bok, a South Korean negotiator, said after meeting North Korean officials,News reports said.

# Setback for BCCI sale in Hong Kong

By Simon Holberton in Hong Kong

HOPES that Bank of Credit and Commerce International's Hong Kong subsidiary could be sold to a local bank lessened yesterday after it emerged that the Abu Dhabi owners of BCCI had not yet provided a guarantee promised last November.

Abu Dhabi had promised to guarantee the unrecorded liabilities of BCCI Hong Kong (BCCHK) for an unlimited amount of money and for an unlimited time.

According to businessmen familiar with the negotiations, the Abu Dhabi owners' position has changed over the past two months and to date the guarantee has not materialised.

In November the Indonesian-owned Lippo Group, through its subsidiary, Hongkong Chinese Bank, undertook to create a new banking company, into which the assets and recorded liabilities of BCCHK would be transferred.

Mr John Lee, managing director of Lippo Group, said yesterday: "If the unrecorded liabilities problem is solved, we are ready to take over the bank."

It is understood that the receiver has not discovered a "bank within a bank" in BCCHK, as have other investigators of BCCI's affairs around the world. However, BCCHK is believed to have a "considerable" exposure to other units of the BCCI empire as well as being subject to numerous holding claims from interested parties both within and outside Hong Kong.

Meanwhile, 100 angry BCCHK depositors held a rally yesterday outside the offices of the government-appointed provisional liquidator, Mr Noel Gleeson, demanding he make a determination on the bank's future by noon tomorrow.

Mr Gleeson said he would have news for depositors "quite soon".

It is highly unlikely that by tomorrow he will be able to tell them whether the bank is to be liquidated or placed under a sell-off arrangement.

# Leaders under arrest but Algeria's opposition battles on

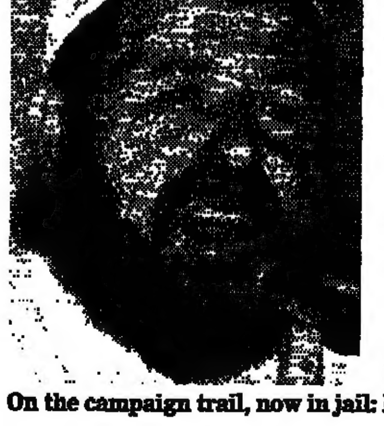
## 'There are plenty more people to take over,' FIS party officials tell **Robert Graham** and **Francis Ghilès** in Algiers

A SET of cramped rooms on the first floor of a downtown office has become the last remaining formal presence in Algiers of the Islamic Salvation Front (FIS).

Here, amid a constant flow of bearded supporters, party officials defiantly await the next move from the authorities. Last Wednesday Mr Abdelkader Hachani, the party's acting head, was arrested, joining more than 500 supporters arrested since the military coup on January 11. Mr Abassi Madani and Mr Ali Ben Hadj, the two main leaders, have been held in detention since last June.

Since the party won a majority 48 per cent vote in the initial round of the country's first multi-party elections a month ago and the annulment of the second round on January 16, the military-backed government has sought to neutralise the leadership. By enforcing exclusive religious use of the mosques, the authorities are also hoping to deny the FIS its most potent propaganda vehicle.

"There are plenty more people to take over," declare party officials, who angrily blame the authorities for moving the political goal-posts by annuling the elections and defrauding them of victory. "A movement backed by the people like ours will not just disappear."



On the campaign trail, now in jail: Mr Madani (left) and Mr Hachani

The authorities calculate that their measures will play on existing divisions within the FIS, isolate hardliners and give the electorate a pause to ponder whether they wish to see the party realise its declared aim of Islamic rule. Such tactics risk a radicalisation of the FIS and a marginalising of the moderates who have dominated the leadership.

Mr Hachani, represented the movement's moderate face, was willing to work out a deal with the military-dominated establishment, including Mr Chadli Bendjedid, the president who was forced to step down on January 11. Indeed, Mr Chadli's downfall was largely a result of the military's perception he would make a deal but then be too weak to combat creeping annexation of the state by Islamic power.

Party elements had also initiated discreet contacts with Western governments and multinational companies, the latter of which were assured their investments would be respected. Mr Hachani carefully offered a tolerant version of Islam, rejecting comparisons between religiously mainstream Algeria and radical Iran.

But events now favour the radicals who have long argued that the imposition of a Western-style democracy was inimical to Islamic rule. This has been the message coming from those mosques, where the party has its most articulate imams.

According to Mr M'mida Ayachi, author of the first Algerian study of the Islamic movement in Algeria, the radical side of the party has been in a minority in Algerian society, which is divided above all else by regional loyalties and the allegencies forged during the bitter struggle for independence from France.

Operating in semi-clandestinity since the early 1980s as an Islamic movement, the FIS was one the first to take advantage of the February 1989 legislation that permitted a multi-party system. Its main external inspiration has been the Moslem Brothers in Egypt, says Mr Ayachi.

However, the FIS has exploited Algerians' confused cultural identity, caught between the French-speaking, Western-orientated intellectual tradition (particularly espoused by the Left) and the new nation's declared aim of being Arab and Islamic. The late President Houari Boumedienne, himself the product of an Islamic education, encouraged Algeria's Islamic identity and ensured the state took control of religion to counter the weight of the Left in the ruling National Liberation Front (FLN).

He established an Islamic university in Constantine, changed the weekend to Thursday and Friday, promoted an extensive mosque building programme and accelerated Arabisation in schools through the import of Egyptian teachers, many of whom were Moslem Brothers.

Mr Chadli continued this process by establishing a national network of Islamic cultural centres, although state-sponsored Islamicisation was abruptly halted in the mid-1980s when he realised the movement was undermining the hegemony of the ruling party and conflicted with modern economic development.

The subsequent confusion over how to deal with this hydra the authorities had in part created allowed the FIS to emerge as the authentic exponent of an Islamic society. This was made easier by its successful infiltration of the mosques, which have today, out of a total of 9,763, little more than 3,000 state-approved imams.

The movement possesses no recogniseable ideologist and its vaguely worded, Koran-inspired platform is almost three years old, but the party is well-organised and well-funded, often with private Saudi money.

Neighbourhood committees provided social services and food for the poor, and, when legalised, the party offered street-level promises of jobs and housing to a population suffering from chronic housing problems and youth unemployment of more than 30 per cent. And it constantly presents itself as the populist champion of clean government.

The FIS has thus filled a vacuum created by the combination of an inefficient corrupt bureaucracy, a one-party system which has failed to represent the interests of the urban under-privileged and an economic development programme whose jobs favoured the Western educated.

The party's appeal to the urban poor and disgruntled lower echelons of government administration seems to go beyond Islam. This is borne out by a study of the Algerian national research centre (Ceneap) which found that only 50 per cent of FIS voters wanted Islamic rule. The study showed that, in a 25m population of whom 60 per cent are less than 30 years old, 41 per cent of the voting youth supported the FIS. Such support will remain so long as the grievances are unremedied.

# Algerian police clash with fundamentalists

ONE person was killed and seven wounded in clashes between security forces and young Islamic militants, the official Algerian APS news agency reported yesterday, Reuter reports from Algiers.

Police fired shots to disperse demonstrators angry at an attempt to arrest a Moslem preacher in eastern Algeria.

THE BUSH BUDGET

President sets out to bolster public confidence and avoid damage to economy with modest mix of measures

# Commander lacking firepower against recession

By Lionel Barber, US Editor, in Washington

IT WAS a beautifully crafted, politically astute speech. But at the end of his State of the Union address to Congress on Tuesday night, it was clear President George Bush had delivered not so much a *tour de force* as a *tour d'horizon*.

Despite heavy advance billing, Mr Bush offered an unexceptional message to Americans worried about *their jobs and their country's future:* sit tight and stay the course.

His long-awaited growth package turned out to be a modest mix of measures designed as much to avoid damage to the economy as to bolster public confidence in an early recovery. This minimalist response to a recession which has endured longer than any downturn since the 1930s matches the president's instincts. His cautious approach points to one conclusion: he has placed his bets on a recovery by early summer as the platform for re-election in November; a restoration of confidence remains the key in his view.

Henry Adams, the great American essayist, wrote that the president resembles the commander of a ship at sea. "He must have a helm to grasp, a course to steer, a port to seek."

In the past six months, few people have had much idea where Mr Bush wished to steer his country. The longer than expected recession caught him off-guard; the lack of an effective response sent his approval rating into free-fall. This week, polls *showed Mr Bush at 43 per cent*, half of the (admittedly unrealistically high) level achieved after the Gulf war. In his speech to Congress, Mr Bush took the political offensive by playing his tested role of commander-in-chief. He invoked the images of an America triumphant in the Cold War and the Gulf war, the pre-eminent power in the world.

Mr Bush then alluded to the benefits gained from the victorious struggle against Soviet communism. He spoke of the prospect of an end to the nuclear stand-off, through further significant reductions in long-range nuclear forces on land and at sea. He also proposed cutting a further $50bn (£27.6bn) in defence spending over the next five years, beyond the 25 per cent cut in US armed forces already planned. The Democratic majority in Congress is looking at cuts of up to $100bn as part of a "peace dividend", but Mr Bush noted that by 1997 he would have cut defence by 30 per cent since taking office in 1989. "This deep, and no deeper," he warned.

## 'It is good to remember... we are still and ever the freest nation'

It took Mr Bush 17 minutes before he mentioned the country's domestic difficulties. His admission that the economy was the nation's "primary problem" was immediately accompanied by a call to arms similar to the days of Desert Storm. "I know we're in hard times, but I know something else," he said. "This will not stand."

Those four words, of course, were the same used to put President Saddam Hussein on notice that he should withdraw from Kuwait or face the full might of the US military. On Tuesday night, Mr Bush soon revealed that he possesses a good deal less firepower to deal with the recession.

The overwhelming reason – but one which Mr Bush skirted – is the federal budget deficit which ballooned in the 1980s and has exploded under his administration.

Yesterday, in his fiscal 1993 budget submission to Congress, Mr Bush revealed that the deficit is likely to reach $399bn in the current fiscal year – a crippling legacy to future generations and one which constrains his actions.

In fact, Mr Bush's principal growth measures were not only trailed in advance by a White House anxious to capture maximum publicity in advance of the New Hampshire primary election on February 18; they are also modest in scope.

The biggest surprise is an executive order to employers to withhold less in federal taxes from workers' pay cheques – a move which the White House estimates could give a $25bn stimulus to the economy. The effect would be to give the average family $350 per worker to spend this year; but that amount will be recouped by the government next year when refunds will be smaller or taxes due will be higher.

Other proposals, which he termed "short-term", include a $500 a child increase in the personal exemption; a $5,000 tax credit for homes purchased before the end of the year; a tax credit of up to $3,750 a year for the poor to buy health insurance; extension of federal unemployment benefits; a new 15 per cent investment tax allowance; and a call for a phased cut in the capital gains tax cut to 15.25 per cent.

This last proposal is likely to run into stiff resistance on Capitol Hill.

Mr Bush raised the stakes by calling on Congress to pass his package by March 20 – an unrealistic deadline raising the prospect of trench warfare in the run-up to November, with Mr Bush railing against a "do-nothing" Congress just as President Harry Truman did in 1948.

The Democrats will counter that Mr Bush is a "do-nothing" president, at least when it comes to falling education standards, health care reform and other domestic ills. Their case rests on a belief that Americans want a more activist leader in the White House, that the age of scepticism about government's ability to solve problems has passed.

By contrast, Mr Bush demonstrated faith in American optimism, the belief that once the recovery begins the majority of Americans will regain their confidence, spend money and vote Republican.

"Moods come and go, but greatness endures," said Mr Bush, "and maybe for a moment it's good to remember what in the dailyness of our lives, we forget: we are still and ever the freest nation on earth – the kindest nation on earth – the strongest nation on earth."

TAX CHANGES

# Push to stimulate short-term growth

THE budget proposes an array of tax changes intended to boost short-term economic growth, writes Michael Prowse. Biggest surprise is a $25bn (£13.8bn) cut in the amount of personal income tax to be withheld by employers this year. This will boost the disposable income of the average married couple by about $345. The move does not need congressional authorisation.

Lower withholding of taxes should take effect by March 1, if not before. But total tax liabilities will not be reduced over time, because tax refunds due next year will be correspondingly reduced. Other temporary measures that do require Congressional approval include:

● Temporary tax credit for first-time home buyers of 10 per cent of purchase price up to $5,000, if buying before January next year. Those selling houses at a loss would be able to deduct losses in excess of 10 per cent of income.

● A temporary investment tax allowance, equivalent to 15 per cent of purchase price of assets (not real estate) if purchased before next January and put in service by June 1993, in addition to existing depreciation allowances.

Proposed permanent tax code changes include:

● An increase in the personal exemption, now $2,300 a person, by $500 for each child under 18, to take effect from October 1. The relief would be phased out for families earning more than $157,000.

● A cut in the maximum tax on capital gains, now 28 per cent, to 15.4 per cent for assets held for more than three years, 19.6 per cent for assets held for two years and 23.8 per cent for assets held one year.

● A new Flexible Individual Retirement Account (FIRA). Individuals earning up to $60,000 (couples $120,000) would be able to contribute $2,500 per person. No tax deduction up front but interest would accumulate tax free if deposit held for seven years.

● Liberalisation of existing Individual Retirement Accounts (IRAs). Waiver of penalty on withdrawals to fund medical and educational expenses. First-time home buyers can also withdraw up to $10,000 for deposits on homes.

● Permanent extension of R&D tax credit. A 20 per cent tax credit for selected R&D spending had been due to end this June.

● Allowing developers and renovators of houses to deduct "passive losses" on real estate transactions; Allowing a tax deduction for interest on loans to pay for college or post-secondary vocational education.

● Repeal of luxury tax on boats and aircraft but not other items. Health care reform plans also call for a tax credit for poor families of up to $3,750 to help finance health insurance premiums.

BUDGET ANALYSIS

# White House approach signals break with Republican past

By Michael Prowse in Washington

THE BUDGET represents a significant retreat for President George Bush from past Republican policies.

For the first time in years, the administration is not projecting budget balance in the medium term. Meanwhile, the welter of tax cuts proposed to combat recession in the short run contradict the spirit of the Reagan tax reform act of 1986, which tried to reduce distortions and create a level fiscal playing field.

The administration expects economic growth to resume this spring and accelerate through the year.

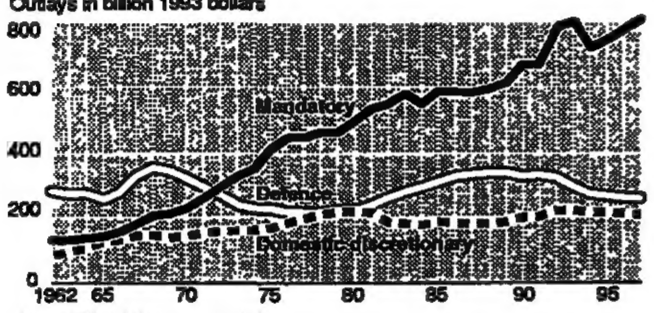
The main forces spurring recovery are lower interest rates and the budget's mild fiscal stimulus. The projections show gross domestic product growing by 2.2 per cent between the fourth quarters of last year and this year and then averaging about 3 per cent until 1997.

Consumer price inflation is expected to stabilise at just over 3 per cent. Unemployment is forecast to decline slowly, from 6.8 per cent this year to 5.3 per cent in 1997.

The short-term projections are roughly in line with private sector forecasts. The longer-term projection of 3 per cent growth, however, is relatively optimistic. The Congressional Budget Office, an independent adviser to Congress, recently forecast growth of about 2.6 per cent a year after the immediate recovery from recession.

'Mandatory' programmes are taking over the budget

Outlays in billion 1993 dollars




Source: Office of Management & Budget

The administration attributes the difference to the president's growth package which it says will raise the real growth rate by 0.4 percentage points per year.

Most of the tax measures are expected to be inexpensive. Excluding the change in withholding rules, the total impact is to reduce receipts by about $5.2bn (£2.87bn) this year.

The biggest revenue loser is the temporary investment tax allowance for companies, which will cost $6.1bn. The capital gains tax cut is forecast to raise $600m this year, rising to $3.8bn next year.

The most costly proposal – the planned increase in the personal tax exemption for children – does not take effect until fiscal 1993, when it is projected to cost $4.4bn.

The budget nevertheless reveals a substantial deterioration in the outlook for the federal deficit, both in the short and long run. This year's deficit is expected to reach a record $400bn, compared with a projection of $281bn this time last year and recent estimates of about $350bn.

More serious, the administration has abandoned hope of achieving budget balance in the medium term.

The deficit is not expected to fall significantly below $200bn (about 3 per cent of GDP) in the next five years. This time last year, Mr Richard Darman, the budget director, projected a modest surplus by 1996.

Mr Darman, however, says this budget is prudent. The administration has not, as many feared, abandoned the discipline of the 1990 budget enforcement act.

The president has not raised the caps on discretionary spending programmes, nor transferred spending between different sections of the budget – for example between defence and domestic programmes.

He points out, however, that as a matter of arithmetic the proposed defence savings of about $50bn up to 1997 are roughly sufficient to offset the cost of the proposed $500 per child increase in the personal tax exemption, which is the most costly of the president's permanent tax changes.

The administration is willing to amend the budget enforcement act to allow defence cuts to be used as an offset if Congress objects to other cuts needed to finance the child tax exemption.

Mr Darman claims that the president's policy proposals, by stimulating faster growth, will more than pay for themselves. Relative to business as usual, they would reduce the deficit by a total of $66bn by 1997. Why then has the deficit outlook deteriorated?

In the short term, the recession is to blame. Over the longer run, Mr Darman singles out the explosive growth of spending on mandatory or "entitlement" programmes. Total mandatory spending is projected at $767bn next fiscal year, more than half the total federal budget.

The biggest programmes are pensions and health care for the elderly and poor. Mandatory spending is expected to rise at an annual rate of 7.2 per cent over the next five years.

Mr Darman says that if growth of mandatory programmes were restricted to compensate only for inflation and population growth, cumulative budgetary savings of nearly $390bn over the next five years would be possible.

He therefore proposes to remedy a "fundamental flaw in the present system of budget discipline" by introducing a specific cap on growth of mandatory programmes akin to the caps on discretionary programmes agreed in 1990.

Under his proposed cap, mandatory spending would be permitted to grow 2.5 percentage points a year faster than population plus consumer price inflation. If comprehensive health care reforms were introduced, this ceiling would be reduced to 1.6 percentage points in excess of population growth and inflation.

The administration says tougher controls of mandatory spending are "inescapable" if deficits are to be controlled in the future. It remains to be seen, however, whether curbs on highly popular entitlement programmes will prove politically possible. In an election year, the answer is almost certainly "no".

**ECONOMIC PROJECTIONS (assuming president's programme-calendar years)**

| | Actual 1990 | 1991 | Projection 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|
| GDP (Constant 1987 $bn) | -0.1 | 0.2 | 2.2 | 3.0 | 3.0 | 3.0 | 2.9 | 2.8 |
| Consumer Price Index (% change Q4/Q4) | 6.2 | 2.9 | 3.1 | 3.3 | 3.2 | 3.2 | 3.2 | 3.1 |
| Civilian unemployment rate (fourth quarter) | 5.9 | 6.9 | 6.8 | 6.4 | 6.0 | 5.7 | 5.8 | 5.8 |
| Interest rates, % 91-day Treasury bills | 7.5 | 5.4 | 4.1 | 4.9 | 5.8 | 5.3 | 5.2 | 5.1 |

Source: Office of Management and Budget

**SPENDING, REVENUES AND DEFICITS ($bn)***

| | 1991 Actual | 1992 Budget | 1993 Budget | 1994 Budget | 1995 Budget | 1996 Budget | 1997 Budget |
|---|---|---|---|---|---|---|---|
| DISCRETIONARY SPENDING | | | | | | | |
| Domestic | 195.4 | 216.2 | 224.7 | 229.8 | 282.2 | 286.9 | 288.8 |
| Defence | 319.7 | 312.9 | 281.6 | 283.7 | 288.5 | 286.5 | 289.8 |
| International | 19.7 | 20.1 | 20.8 | 21.4 | 21.8 | 21.5 | 21.2 |
| Total Discretionary | 534.8 | 549.2 | 537.0 | 534.3 | 537.0 | 544.8 | 547.8 |
| MANDATORY SPENDING | 598.7 | 727.2 | 765.9 | 709.5 | 756.3 | 809.6 | 872.6 |
| Net Interest | 194.5 | 198.8 | 213.8 | 231.8 | 242.2 | 253.0 | 268.2 |
| Total Outlays | 1,328.0 | 1,475.0 | 1,516.7 | 1,474.8 | 1,535.5 | 1,607.5 | 1,688.6 |
| REVENUES | 1,054.8 | 1,075.7 | 1,164.8 | 1,268.4 | 1,348.5 | 1,427.5 | 1,501.8 |
| DEFICIT | -268.7 | -399.4 | -351.9 | -211.4 | -192.1 | -180.0 | -181.8 |

*Excluding comprehensive health reform.

Source: Office of Management and Budget

Vice-president Dan Quayle (top left) and Thomas Foley, Speaker of the House, applaud George Bush during the president's annual State of the Union address to Congress

MAIN POINTS OF BUDGET

- Economic recovery to begin in spring; 3 per cent growth over medium term.
- Budget deficit to rise to record $400bn this year and not dip much below $200bn over next five years.
- Change in withholding tax rules to provide $25bn short-term stimulus.
- Increase in personal tax exemption of $500 per child from this October.
- Proposed cap to control spending on mandatory "entitlement" programmes.
- Defence budget cut a further $50bn over next five years; big weapons programmes cancelled.

HEALTH CARE

# Proposals steer clear of details

By George Graham in Washington

PRESIDENT George Bush plans to put forward a comprehensive plan to reform the US health care system next month, but in his State of the Union message on Tuesday and in yesterday's budget he put forward only the bare outlines of his scheme.

The plan aims to guarantee access to health care for all poor families through a transferable health insurance voucher, which the administration says will be large enough to buy basic coverage: $3,750 (£2,071) for a family.

Middle-class families, the administration says, will be allowed to deduct more of their health care expenses.

The administration also aims to solve the problems small businesses are facing in obtaining affordable health insurance for their employees by pooling arrangements to give them the same buying power as large corporations.

Mr Bush explicitly rejected two of the reform proposals adopted by the Democratic opposition: either a Canadian-style government-managed system or the "play or pay" system whereby companies would have to choose between providing health coverage for employees or paying towards a state scheme.

He called for greater use of managed health plans, a streamlining in paperwork and a reform of medical malpractice law as ways to control the soaring cost of health care, which his budget director, Mr Richard Darman, said yesterday was "on an unsustainable path – threatening to consume an impossible proportion of gross domestic product".

But critics said these measures appeared inadequate in the face of medical inflation topping 10 per cent a year for the last five years.

DEFENCE SPENDING

# Cheney concedes ground on costly and controversial programmes

AS THE US recession bites deeper, the clamour for a "peace dividend" after the end of the Cold War has grown, writes George Graham.

Mr Richard Cheney, US defence secretary, has held the line against radical cuts in military spending. He has warned repeatedly that nuclear missiles continue to be produced and deployed on the territory of the former Soviet Union, and has cautioned against leaving the US with a hollow military structure to face an uncertain future.

In his spending proposal for the 1993 fiscal year, Mr Cheney has come up with a request for $267.6bn (£147.8bn) of budget authorisation, cutting 7 per cent in inflation adjusted terms from the 1992 budget.

"The disintegration of the Soviet Union has reduced the threat to US interests and eliminated the urgency for producing several advanced weapons systems," Mr Cheney said yesterday. "We can now afford to be more deliberate in the pace at which we modernise our armed forces."

Mr Cheney has agreed to abandon some costly and controversial programmes, such as the Seawolf submarine or the B2 stealth bomber. The nuclear arms reduction proposals now being discussed by President George Bush and President Boris Yeltsin of Russia offer a further opportunity to cut spending on the strategic component of the US forces.

In particular, the Pentagon plans a new approach to defence acquisition, concentrating on research and development and allowing prototypes to move into production only when it can be demonstrated they work and are needed. This approach could help avoid some of the costly white elephants the Pentagon has been burdened with in recent years, but it terrifies defence contractors, who argue that even if military technology is preserved, the industrial base necessary for eventual production will be lost.

The Pentagon has barely adjusted its plans for a reduced conventional force structure since Mr Bush unveiled the Base Force concept in 1990 – after the fall of the Berlin Wall but before Operation Desert Storm and before the collapse of the Soviet Union.

The Base Force already envisaged a 25 per cent reduction in the US force structure over five years.

The plan built on strategic deterrence coupled with a new effort to protect against nuclear missiles through the Strategic Defence Initiative (SDI); forward US troop presence in Europe and the Pacific; the ability to respond to crises such as in the Gulf war; and the capacity to reconstitute forces in the future should some need arise.

General Colin Powell, chairman of the joint chiefs of staff, argues it would be dangerous to cut below the Base Force level of 12 active and six reserve Army divisions, 12 Navy carrier battle groups, and 15 active and 11 reserve Air Force fighter wings.

"The plan for downsizing and reconfiguring our forces to the Base Force level is both prudent and fiscally attainable. Faster reductions risk destroying the cohesion, morale and military effectiveness of today's forces," he warned in his 1992 military strategy assessment, issued yesterday.

Mr Cheney describes the demands of Congress for faster and deeper cuts as "hogwash", but the $50.4bn of savings his plan will bring over the next five years seem unlikely to satisfy even fellow Republicans.

But Congress itself has shown reluctance to cut troop levels, in particular reserves, which would have produced quicker spending cuts. Individual members can be expected to fight tooth and nail to preserve weapons programmes that are built in their districts.

AMONG programmes affected by planned budget savings are:

● The B2 bomber. The Pentagon has for years demanded 75 of the stealth bombers built by Northrop Corp in California, but Mr Cheney has now agreed to halt the programme at 20 aircraft, saving $14.5bn (£8bn) over the next five years.

Congress, however, may continue to demand an immediate halt to the B2, limiting the Air Force to the 15 aircraft already under construction.

● SSN-21 Seawolf submarine. With the collapse of the Soviet Union, the Pentagon has agreed it no longer needs this new class of nuclear attack submarine, whose prototype is under construction at General Dynamics' Electric Boat division in Groton, Connecticut. Savings over five years should total $17.5bn.

● Comanche helicopter. This light-armed scout helicopter was under development by Boeing and Sikorsky, but the Army will now make do with its Apache and Kiowa fleet, upgraded with the new Longbow fire control radar system. Efforts will be shifted to prototype development, yielding five-year savings of $3.4bn.

● ADATS missile system. The limited air threat to US ground forces from anyone but the Soviet Union has led Mr Cheney to end the Air Defence Anti-tank System under development by Martin Marietta in Florida.

The army will use existing Patriot, Hawk and Stinger missile systems and develop an improved aircraft tracking system, saving $1.7bn over five years.

Other savings should come from the cancellation of the Midgetman small inter-continental ballistic missile, but these will be partially offset by spending on an improved guidance system for the Minuteman III ICBM.

The Pentagon also plans to defer development of the Army's Block III tank and the Losat infantry anti-tank weapon; forego engineering and manufacturing development for the Amraam air-to-air missile, which is due to replace the Sparrow; and limit spending on the Navy's fixed distribution system underwater surveillance network to research.

The cuts appear to spare the F-22 Advanced Tactical Fighter programme managed by Lockheed and McDonnell Douglas's C-17 transport aircraft, and the administration is asking for a 31 per cent increase in funding for the anti-ballistic missile Strategic Defence Initiative to $5.4bn.

Overall, savings in programme budget authorisation for 1993-97 should total $50.4bn, although savings in actual outlays are expected to total only $27.4bn over the same period.

## THE DISARMAMENT RACE

□ US-Soviet weapons control

# Sense of urgency prompts Bush to adopt unilateral tactics

By David White, Defence Correspondent

IN the six months since the US and the Soviet Union signed the Start treaty, agreeing for the first time to cut their long-range nuclear arsenals, the whole context of nuclear arms control has been transformed.

That treaty set reductions of about 30 per cent over seven years. When it was finally signed, after protracted negotiations, US officials had become dubious about prospects for continuing the process and about the ability of the Soviet system to absorb more cuts.

The August coup attempt in Moscow brought the first change to that outlook. Seizing what many thought could be a last opportunity, President George Bush announced a range of proposals mixed with unilateral gestures in September. Having previously staved off negotiations with the Soviets on short-range nuclear weapons deployed with armies in Europe, the US moved to scrap the weapons altogether.

Other measures included removing tactical nuclear weapons from ships and standing down from alert the US Air Force's strategic bombers and missiles due to be scrapped under Start.

Tuesday's proposals reflect this new approach of unilateral and reciprocal measures in place of negotiations. They are motivated by a clear sense of urgency. Stockpiles built up to achieve security through a balance of destructive power have become, in the former Soviet Union, a source of potential insecurity.

The US has long wanted to tackle the Soviets' multiple-warhead intercontinental ballistic missiles (ICBMs), especially the SS-18, the biggest weapon in either country's armoury. Under Start, the number of SS-18s is due to be halved. Mr Bush proposed in September an agreement to ban land-based ICBMs with multiple warheads altogether, and his latest proposals are aimed at achieving that.

The SS-18s, based in silos with 10 independent warheads each, are seen as the most "destabilising" of weapons, because their launch sites would be prime targets and the commanders in charge of them would be likely to fire them off as soon as possible to avoid their destruction. By contrast, in the US view, submarine-launched weapons, hidden in the depths of the ocean, are ideal for wielding the threat of riposte to a nuclear aggressor and are therefore "stabilising".

However, this position appeared disingenuous, given that the Soviets held superiority in land-based ICBMs and the US both numerical and technical superiority in submarine-launched ballistic missiles. The US deploys 160 10-warhead Poseidon missiles and 480 eight-warhead Trident C-4 and D-5 missiles, making a total of up to 5,440 strategic warheads. Mr Bush's offer to cut these by a third would bring these numbers roughly into line with Russia's submarine firepower.

However, the proposed cuts would give the US submarine force a greater relative weight than now in the nation's "triad" of nuclear forces – air, land and sea – all of which are affected by the proposals.

**WEAPONS BUSH WANTS TO ELIMINATE**
**Land-based intercontinental missiles with multiple warheads**

| | Type | Number | Warheads per missile | Location |
|---|---|---|---|---|
| CIS | SS-18 | 308 | 10 | Kazakhstan, Russia |
| | SS-24 | 96 | 10 | Russia, Ukraine |
| | SS-19 | 300 | 6 | Russia, Ukraine |
| | SS-17 | 47 | 4 | Russia |
| US | MX Peacekeeper | 50 | 10 | Wyoming |
| | *Minuteman III | 500 | 3 | N. Dakota, Montana, Wyoming |

*To be retained but with single warhead

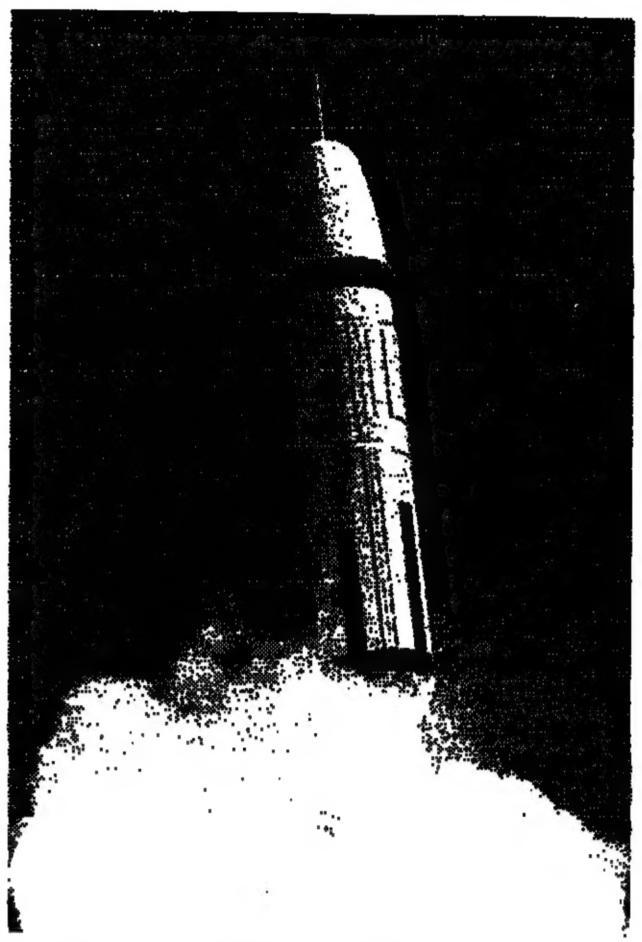
If Russia accepts the proposals, they would mean eliminating 1,500 of the 2,450 warheads on US land-based ICBMs. Plans to deploy the 50 modern MX Peacekeeper missiles on rail-cars had already been stopped. Now these 10-warhead missiles, able to target different cities, would be eliminated. The 500 Minuteman III missiles would have their warheads reduced from three to one, effectively doubling the reduction that was expected under the Start treaty. Some strategic bombers would be converted to non-nuclear use.

These proposals are in addition to unilateral measures: curtailing the highlyexpensive B-2 stealth bomber programme, scrapping development of the new US single-warhead missile known as Midgetman, and halting warhead production for the Trident D-5.

The main aim of the proposals is to secure the elimination of the SS-18s based in Kazakhstan and Russia and the modern SS-24s in Russia and Ukraine. These weapons, known in Nato parlance as "Satan" and "Scalpel", amass a total of more than 4,000 warheads, 1,400 of which were already due to go under the terms of Start. Also covered would be the more lightweight SS-19 and SS-17, which like the SS-18 were introduced in the mid-1970s, with some 2,000 warheads between them.

Some of Mr Bush's measures, however, are simply a matter of facing up to hard realities. The cost of Northrop's B-2 bomber had made it a principal candidate for budget cuts. Planned numbers had already been trimmed from 132 to 75. The production run is now set to stop at 20, resulting in an estimated cost per aircraft of $2bn.

The stopping of Trident warhead production – which means that the US will, for the first time since it has had nuclear weapons, no longer be producing any warhead – follows a two-year shutdown of the facility at Rocky Flats, Colorado, where the plutonium cores are produced, pending resolution of environmental and safety problems.



The Trident missile: still has some mileage in it

□ Russian proposals

# Yeltsin offers limited hopes

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin of Russia returned to the international arena with typical flamboyance yesterday, after his mysterious disappearing act.

He unveiled a series of Russian disarmament proposals, which were seen as the president wanting to "nail down his position as the man in the driving seat," said Mr Andrei Kortunov, a researcher at the Moscow-based Institute for USA and Canada Studies.

However, following the collapse of the Soviet Union, not all the foreign policy and defence levers are in Mr Yeltsin's control. He recognised as much when addressing western anxieties as to who would ratify the Start treaty on long-range nuclear arsenals, originally concluded by the US and the then Soviet Union.

Making a start at least, he said that the Russian parliament would ratify the treaty, and he invited the parliaments of Kazakhstan, Belarus and Ukraine to follow suit.

Mr Yeltsin's greatest room for manoeuvre lies in his promises to cut the research into, and production of, missiles and other military hardware, since Russia controls most of the purse strings in the Commonwealth of Independent States.

Speaking for other republics, he also announced that Russia, with Kazakhstan and Kyrgystan, would reach agreement with China to cut forces on their common borders.

Mr Yeltsin, who is to arrive in London today before departing for the US, also sought to reassure western opinion about fears of a dispersal around the globe of the former Soviet Union's nuclear scientists and materials. But he was issuing a statement of Russian intent rather than an overall promise on behalf of the former Soviet Union.

He said Russia would adopt domestic regulations to limit exports of materials and equipment that could be used to build nuclear, chemical and biological weapons. But that will not stop Tajikistan, for instance, from selling nuclear materials.

□ Britain and Trident

# Deployment of submarines to go ahead

NUCLEAR ARMS cuts proposed by US President George Bush will not deter Britain from going ahead with plans to deploy Trident ballistic-missile submarines, with much greater potential firepower than its current Polaris system, Mr Tom King, defence secretary, said yesterday, writes David White.

The Bush proposals, which include cutting submarine warheads, would not affect the UK's plans for obtaining Trident II missiles from the US.

However, he did not specifically rule out the possibility that Britain's Trident force, due for deployment in the mid-1990s, might go to sea with less than its full load of warheads.

The new submarines – three under construction and a fourth due to be ordered soon – will carry up to 16 missiles, with up to eight British-made warheads each, compared with two or three on the current system. This means a maximum of 128 warheads per boat.

Mr King said that the UK needed the full fleet of four submarines for "operational security". They would carry "the minimum load necessary" – he did not say what that would be.

Britain had to pose a credible threat of unacceptable damage to an aggressor, he said, arguing that such a threat was not in the same league as that of the US or the former Soviet Union.

However, Britain has previously felt obliged to conform with the spirit of US-Soviet nuclear arms agreements. Plans for an air-launched missile were geared to a range of under 500km, for instance.

## AMERICAN NEWS

# US output shows 0.3% rise in fourth quarter

THE US economy grew at an annual rate of 0.3 per cent in the fourth quarter of last year, but contracted over the course of the full year for the first time in nine years, Reuter reports from Washington.

Figures released by the Commerce Department showed that gross domestic product shrank 0.7 per cent during 1991. In the previous year it had grown by a scant 1 per cent.

The fall last year was the first decline in national output since 1982, when goods and services production dropped 2.2 per cent as the economy went through the last recession.

GDP grew at an annual rate of 1.4 per cent in the second quarter of last year and then at an annual rate of 1.8 per cent in the third quarter. But before that, it had shrunk for six months in succession.

The estimated growth of 0.3 per cent in the fourth quarter is subject to revisions over the next two months.

Real net exports increased by $22.8bn during the fourth quarter last year after dropping by $18.8bn in the third quarter.

The Commerce Department said spending by consumers fell by $9bn in the fourth quarter after an $18.8bn third quarter increase.

Government purchases of goods and services dropped by $14.3bn in the fourth quarter after falling $8.2bn in the third quarter.

Business investment declined by $3.1bn in the fourth quarter after falling $4.8bn in the third quarter.

The GDP report indicated inflation was well in check as 1991 ended, with prices increasing only at a 1.7 per cent annual rate in the fourth quarter compared with 2.1 per cent in the third quarter.

For all of 1991, the implicit price deflator measure of prices went up 3.6 per cent, the smallest rise since a 3.2 per cent increase in 1987 and down from 4.2 per cent in 1990.

Private forecasters do not expect the economy to rebound strongly until mid-1992. Strength in the second half of the year is expected to come from companies rebuilding depleted inventories and from the stimulative impact of lower interest rates on housing and on consumer spending.

# Iran 'took US military exports'

By Alan Friedman in New York

THE US Department of Commerce approved nearly $60m worth of militarily useful US exports to Iran in the 12 months to last September, including equipment that could help make nuclear weapons, according to a report released yesterday by the Washington-based Wisconsin Project on Nuclear Arms Control.

Professor Gary Milhollin, director of the Wisconsin Project, yesterday said the Commerce Department approved some of the licences in spite of opposition from the Pentagon and the State Department.

Restrictions applied to exports of militarily useful equipment to Iran because of Iran's status as a supporter of terrorism under US export law.

The approvals were of dual-use equipment, meaning that the items could have either civilian or military applications. This is an important loophole for the Commerce Department which means the shipments would not have been illegal. A similar series of shipments of such dual-use equipment to Iraq occurred following Commerce Department approval of exports between 1985 and 1990.

Prof Milhollin said that among the exports approved were items that could clearly be used for the making and testing of nuclear weapons.

He said the categories of equipment included computers that can be used for the design of nuclear weapons; navigation, direction-finding and radar equipment useful for missile guidance and targeting; oscilloscopes used to process the rapid signals from nuclear weapon tests; and compasses, gyroscopes and accelerometers used in missile guidance systems.

The Commerce Department reacted yesterday by saying that while it had not seen the Milhollin report, it wished to note that "all of these licences were decided in accordance with export control policies, following inter-agency review and with Congress being informed."

# Stand-by loan for Brazil likely

THE BOARD of the International Monetary Fund was expected last night to approve a $2bn stand-by loan for Brazil which should pave the way for accords with the country's creditors, reports Christina Lamb in São Paulo.

There is, however, doubt over the government's ability to meet the economic targets needed to secure later disbursements under the stand-by loan. The money is to be disbursed in seven equal quarterly instalments, with the first released on board approval and later tranches dependent on economic perfomance.

In its letter of intent, Brazil has pledged to turn its fiscal deficit into a surplus of 2.4 per cent of GDP, and to bring down monthly inflation (24 per cent last month) to 2 per cent by year-end. Latest indicators, though, show inflation rising again.

President Fernando Collor's government has been negotiating this loan since it took office almost two years ago.

The loan should shore up the position of Mr Marcílio Marques Moreira as economy minister. Mr Michel Camdessus, IMF managing director, is said to have warned board members that, if the loan were not granted, Mr Moreira would very likely be superseded by someone less orthodox, returning Brazil to a cycle of shock plans and hyper-inflation.

# Top Peru official alleges drug links

MR Hernando de Soto, top adviser and personal representative of President Alberto Fujimori of Peru, resigned this week amid accusations of government involvement in drugs-related corruption, reports Sally Bowen in Lima.

Mr de Soto had been Mr Fujimori's principal, if informal, link for some 20 months in negotiations with the US, initially over re-establishment of Peru's international financial relations and later on the bilateral anti-narcotics agreement signed last May.

More recently he had been developing contacts with Europe-based multinational corporations to secure assistance for an ambitious programme to cultivate other sub-tropical crops in place of coca, which yields cocaine.

Mr de Soto alleged, in a hard-hitting resignation letter, that officials in Peru's coca-growing zones are co-operating with drug traffickers. This allegation, made at such a high level, will severely embarrass the president and further jeopardise US aid related to combatting drugs.

Elsewhere in his letter, Mr de Soto said Latin American stabilisation programmes in general, and Peru's in particular, had benefited only those close to power.

President Fujimori is due in Britain next week to give a lecture on the problems of drugs-trafficking and the environment.

# Poor computer security 'costs £1.1bn a year'

By Alan Cane

BREACHES of computer security cost UK business at least £1.1bn annually, according to a survey of 900 companies published yesterday.

The survey confirms that computer misuse, whether accidental or deliberate, is widespread. More than half of the companies questioned said they had suffered a significant security breach in the past five years.

The most serious incident recorded in the survey involved a fire and flood which destroyed all of a finance company's computers. The immediate cost was £8m; the long term cost, £24m. However, the company was back in business within a week because it had effective contingency plans.

The survey was carried out by the National Computing Centre, with support from the UK computer group ICL (which is 80 per cent owned by Fujitsu of Japan), the Department of Trade and Industry and Elsevier Publications.

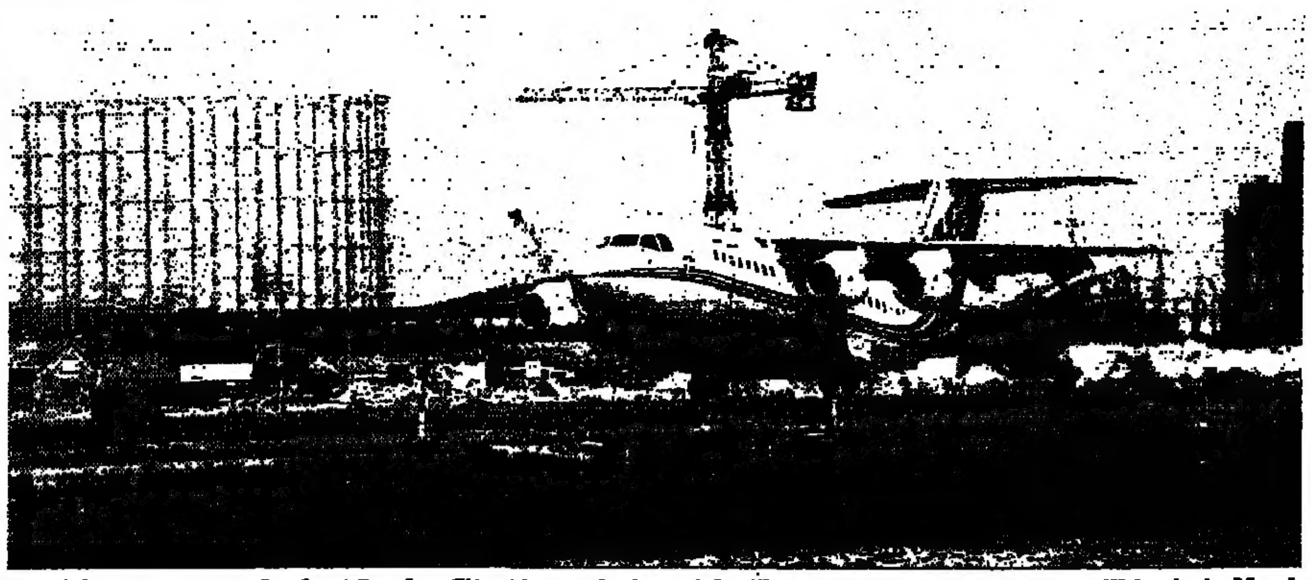
The survey's other conclusions include:

- Some three-quarters of respondents had not yet changed their disciplinary measures to meet the conditions of the Computer Misuse Act, although most indicate they intend to do so in the next 12 months.
- Losses from physical breaches (which include theft, lightning, fire and flood) and logical breaches (such as "hacking" and software "viruses") are approximately equal, at £580m and £530m respectively.
- There is still a reluctance to inform the police about losses from both physical and logical attacks.

Electricity supply or other equipment failure was the most likely cause of a physical breach, followed by theft. The most common cause of a logical breach was the introduction of unchecked or incorrect software; equally common was the introduction of software designed deliberately to be disruptive, such as "viruses" or "Trojan Horses".

The average cost to a company of a "hacking" incident was £23,000; the largest cost recorded in the survey from "hacking" was £250,000.

*Details from the NCC, telephone (+61) 228 6333.*



Touchdown: a BAe146 lands at London City Airport during trials. The airport's first jet services will begin in March

# Swiss carrier to fly jets to Docklands

By Paul Betts, Aerospace Correspondent

LONDON CITY Airport yesterday received a boost with the announcement that Crossair, the Swiss regional carrier controlled by Swissair, will operate jet flights from Zurich to the Docklands airport from March 30.

The Swiss carrier also said it was dropping its current daily service from London's Stansted airport to Basle next month because of inadequate demand.

Crossair will be the first carrier to operate the British Aerospace 146 regional jet from London City Airport. This follows the recent extension of the airport's runway, which enables the BAe 146 to use the airport, situated in London's East End.

In November, Crossair will also take over the Basle-London Heathrow service currently operated by Swissair, and is considering a service from Geneva to London City.

Confirmation of the new Crossair services at London City follows Air France's announcement on Monday that it would operate up to seven daily services a week from the airport, using ATR 42 turboprop aircraft.

Air France also said it was suspending services from Stansted in the spring.

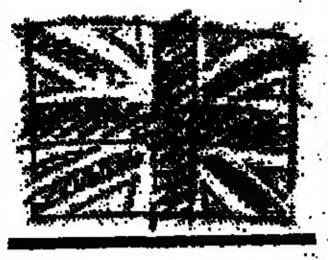
The decision of the two airlines to suspend their Stansted services is a blow for the image of the £400m new Stansted airport complex which BAA, the former British Airports Authority, opened last year.

While conceding it was a "public relations blow", a Stansted airport official emphasised that the decision of the two airlines was not a "business blow" for the airport. He said the combined services of Air France and Crossair accounted for only 3 per cent of passenger traffic at Stansted.

The start of jet services at London City is expected to lead to an expansion of services from the loss-making airport, which is owned by the Mowlem construction group. Last year, only about 170,000 passengers used the airport, which needs around 450,000 passengers a year to break even.

The recent £7m runway extension has enabled a wider range of aircraft to operate from the airport, including the BAe 146, and the Fokker 50 and ATR 42 turboprops.

## BRITAIN IN BRIEF



### Investors may lose insurance compensation

Insurers are no longer willing to provide cover for the investors' compensation scheme (ICS), a safety net for private investors set up under the Financial Services Act.

The unwillingness of the insurance market to back the scheme, which pays out up to £100m a year, is one reason behind a thorough review of the compensation arrangements, which was announced yesterday by the Securities and Investments Board, the UK's chief investment watchdog.

Separately, regulators have privately told the life assurance and unit trust industries that they will have to pay an additional £14m to the ICS for the 1991-92 fiscal year. The payment is intended to help the independent financial advisers regulated by Fimbra to meet their contribution, which can be up to £18m.

### Call to close tax loopholes

The Inland Revenue yesterday issued for consultation two draft clauses for the next Finance Bill.

They are designed to close loopholes concerning rights to profits for shareholders when a company is being wound up, and charges to companies which leave a group during insolvency proceedings.

### UK to boost satellite effort

Britain intends to strengthen its commitment to European satellite and space efforts when it takes over the presidency of the European Commission in July, Mr John Major, the prime minister, has told the parliamentary space committee.

This would underscore the increasing UK involvement in pan-European defence programmes and lessen its dependence on US technology.

Details of the letter from the prime minister to Sir Michael Marshall, chairman of the parliamentary space committee, are due to be released today.

The news came as Mr Willem van Eekelen, secretary-general of the Western European Union, called on the UK to renew its support for WEU efforts to create a pan-European satellite surveillance network.

### Customs not told of supergun

A House of Commons committee of MPs heard that British customs was not told of the Iraqi supergun project until April 1990, one day before it seized eight metal pipes destined for Iraq at Teesport, north-east England.

Mr Alexander Russell, a customs commissioner, admitted to the trade and industry committee investigating the supergun affair that it would have been "desirable" for information to be given to his department earlier.

Government departments including the ministry of defence, the foreign office and the department of trade and industry are known to have been aware of the Iraqi project the previous autumn.

### Union leader criticises BR

The leader of the largest rail union has called for a mandatory limit on the hours British Rail staff can work after it was revealed that thousands of staff worked longer than permitted by safety guidelines.

Mr Jimmy Knapp, general secretary of the RMT rail union, said that according to BR's own figures, staff worked more than 72 hours a week on 3,100 occasions, and on 6,789 occasions staff worked shifts longer than 12 hours.

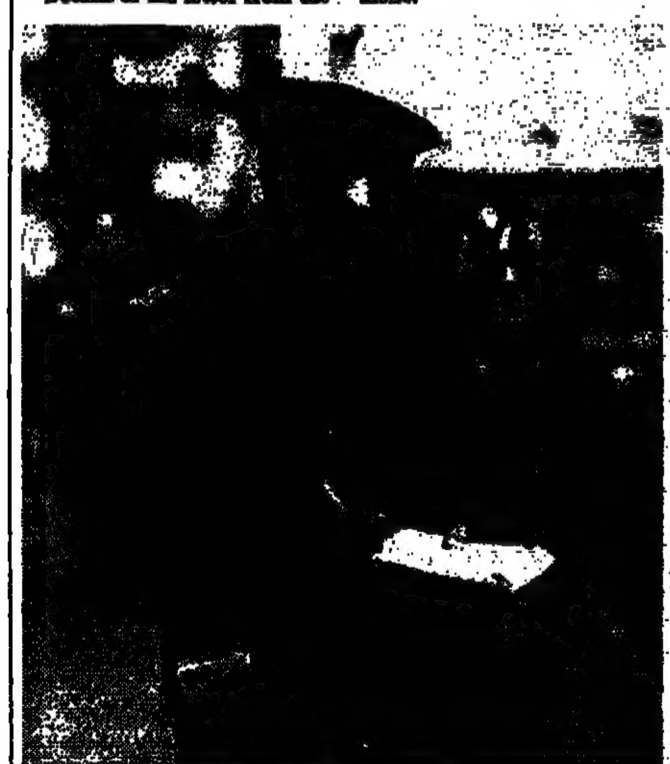
Last year BR issued guidelines which laid down a maximum of 72 hours per working week, and maximum of 12 hours per shift following the independent inquiry into the Clapham rail disaster in 1988, in which 35 people died.

### Repossessions rise by 35%

Home repossession orders issued by county courts in England and Wales increased by 35 per cent to 74,079 last year from 54,718 in 1990, according to figures released by the Lord Chancellor's office.

Applications for orders by lenders rose from 145,317 in 1990 to 186,786 last year.

The hardest hit areas were in south London, where 2,306 orders were issued in Croydon alone.



Traffic wardens, often vilified by British motorists, are inefficient and poorly managed, according to an Audit Commission report. In what amounts to a 24-page ticket of violations, the commission paints a dismal picture of management indifference. Parking enforcement objectives are "unquantified" and less than half a warden's working day is spent productively, the report says.

# Radio-link plan for telephones wins UK licence

By Hugo Dixon

ONE MILLION British homes could have telephone aerials on their roofs by early next century if a service licensed by the government yesterday is as successful as its promotors claim it will be.

Ionica, a new enterprise set up by telecommunications industry executives, has developed a technology based on radio links which it believes will provide a low-cost alternative to the telephone service currently provided by BT. It will be targeted at residential and small-business customers.

Since last year's government review of telecommunications policy, most parts of the market have been open to competition. The market for providing phone lines to residential customers is still almost a total BT monopoly, although cable television companies have recently been making inroads.

Mr Nigel Playford, managing director of Ionica and founder of paging company Cognito, said: "We intend to undercut BT on price across the board." He said that the service would be available to half the population in two years, and that his Cambridge-based company planned to win at least 5 per cent of the residential market in its first 10 years.

The Ionica system uses a radio link from the exchange to a six-inch aerial on the customer's roof. Mr Playford added that the technology would allow a higher quality of service than that provided by the cellular system, which is also based on radio links.

Ionica, which is backed by a group of private investors, refused to say how much money it would need to launch its service or how it would be financed.

Mr John Redwood, corporate affairs minister, said Ionica's approach "offers the chance to receive the full benefits of a telephone service without the need for wires to be installed either above or below ground."

There is bound to be some scepticism over whether Ionica's plans are viable following the failure of Telepoint, a radio-based telephone service licensed by the government in the late 1980s.

# Train maker lodges claim for compensation from BR

By Richard Tomkins, Transport Correspondent

BREL, the privatised train maker which was once part of British Rail (BR) has lodged a multi-million pound claim against the state railway network for the cost of rectifying faults in trains which Brel itself made.

The dispute centres on the Class 158 diesel express trains which are supposed to be the flagships of the Regional Railways and ScotRail fleets. Deliveries have been delayed and trains already supplied to BR recalled for modifications.

Last year, Regional Railways said it had lost £20m in revenues and other expenses. It was believed that BR would seek compensation from Brel.

However, it emerged yesterday that Brel's new owners – Asea Brown Boveri and Trafalgar House (40 per cent each), and the management (20 per cent) – are exempt from warranty claims by BR as part of the terms of their purchase of Brel in 1989.

Further, BR said in written evidence to the House of Commons select committee on transport that Brel had made a "very substantial claim" for costs incurred in rectifying design defects. Rail analysts say that figure exceeds £10m.

Mr John Darby, Brel's chairman, told MPs that BR had laid down unrealistic delivery schedules for the Class 158.

BR said Brel had not objected to the delivery schedule, and that it was for Brel to prove that its claim was justified by the terms of the privatisation.

# Losses may damage solvency at Lloyd's

By Richard Lapper

LOSSES at Lloyd's of London over the next three years could damage its solvency, according to figures published yesterday by Chatset, the company which analyses the performance of the insurance market's syndicates.

Chatset estimates that losses for 1989, 1990 and last year may exceed £3.2bn, against reserves of around £4.4bn at the end of 1990.

"On our projections Lloyd's will have lost, by the time the 1991 figures are out in 1994, the equivalent of the accumulated deposits of the entire membership," Chatset warns.

Chatset suggests that urgent action is needed to bolster the the market's central fund, out of which claims are paid if Names – the individuals whose assets back the market's capital base – are unable to meet their commitments. The fund currently stands at around £450m.

The group's grim predictions come as Lloyd's leadership grapples with the implications of implementing wide-ranging reforms of the market's structure recommended by a task force just over a fortnight ago.

Chatset says losses in 1990 could again exceed £1bn (against a forecast £1.35bn in 1989) and losses for last year could be at least £700m, partially due to the continuing impact of claims from US pollution awards.

According to Chatset, an average of between £400m and £600m a year will be needed to top up reserves.

The market was badly hit by a number of substantial losses at the end of last year, the biggest of which – Typhoon Mireille, which devastated parts of Japan in September – left Lloyd's with claims of more than £200m.

Chatset also expects the results for 1990 and last year for marine syndicates – which specialise in the insurance of ships, cargoes and offshore oil rigs – to be worse than expected. The group's preliminary figures suggest the rate rises introduced last year by marine underwriters were insufficient to restore profitability.

# Scots businessmen shocked by independence poll

By James Buxton, Scottish Correspondent

SCOTTISH business leaders were recovering their composure yesterday after the shock of an opinion poll suggesting that 50 per cent of the Scottish electorate now favour independence.

The ICM opinion poll, for The Scotsman newspaper and Independent Television News, reversed the pattern of the last four years in which polls have consistently shown that about 45 per cent of Scots would like a devolved Scottish parliament in Edinburgh and that 35 per cent prefer outright independence.

In the ICM poll, support for devolution dropped to 27 per cent while backing for the status quo was unchanged at 19 per cent. But Mr David MacLehose, director of the Confederation of British Industry in Scotland, said: "I don't think if we had an election today we would end up with a result like that. But the pendulum is definitely swinging towards separatism."

Most members of the CBI are understood to oppose any change in the constitutional status quo.

Several businessmen took comfort from the fact that backing for the Scottish National party, the only one offering independence, was 26 per cent. Although this meant a jump of seven per cent, putting the party at its highest level since 1989, it suggested that only just over half those wanting independence would vote for it.

Scottish businessmen accept with varying degrees of enthusiasm that some form of Scottish assembly is likely after the general election: a tax-raising Scottish parliament has been promised by the Labour and Liberal Democrat opposition, while the Conservatives, despite repeated denials, are widely expected to offer some kind of assembly if they win.

But, as one businessman said, "We have a rough idea what to expect with a devolved Scottish parliament. But what would happen with independence is a complete unknown."

This week's poll contained depressing news for the Labour party, marking support for the party north of the border down to 41 per cent, one point less than it won at the 1987 general election in Scotland. This raises the possibility that Labour might not win extra Scottish seats from the Conservatives at a general election.

The SNP could take advantage of Labour's decline to mount a challenge to the Tories, who received 23 per cent support in the poll, one point less than in the 1987 election.

# Norwegian gas imports could be in the pipeline

**Deborah Hargreaves** on moves to open the market

THE UK government's expected move to break down barriers to gas imports from Norway will be widely welcomed by the power industry as a way to ease the anticipated tightness in supply over the next couple of years.

Only this week, British Gas warned that the industry faces a possible shortfall in supply of as much as 2bn therms a year by 1994, which could force the company to cut supplies to large industrial users.

The Department of Energy's defence of "Fortress Britain" on gas imports, coupled with its strong push for more competition in the domestic market, has become increasingly difficult to justify.

In addition, the UK will come under growing EC pressure to open its market to outside competition.

The UK has been one of the Commission's staunch defenders on its moves towards a freer EC energy market, and could be embarrassed if it maintains restrictions on foreign participation on its home ground.

The government's expected softening of its stance on imports follows the conclusion of the first export deal by a UK company late last year, when Ultramar, the oil and gas group that has since been taken over by rival Lasmo, reached agreement to export gas to the Netherlands from its Markham field, which straddles the British and Dutch sectors of the North Sea.

The Department of Energy has retained an unwritten ban on gas imports since it vetoed a deal by British Gas to import supplies from Norway's Sleipner West field in 1985. At the time, the government was concerned that the free movement of gas into the UK would discourage development of some of the UK's more marginal North Sea gas fields.

In its evidence to the Office of Fair Trading, which was examining the development of competition in the UK gas industry last year, the department reiterated its view that excess UK supply of gas could easily soak up increasing demand, and new developments could extend the potential for self-sufficiency "well into the next century".

The OFT, however, was unconvinced and came down strongly in favour of opening up the UK market in order to weaken British Gas's monopoly grip on domestic supply.

The only Norwegian gas that currently finds its way into the UK comes from the Frigg field as part of a long-established contract with British Gas. The company currently imports around 600m cubic feet per day of Frigg gas, but the field is declining. The contract accounted for 25 per cent of British Gas's needs when it first started nearly 15 years ago, but now fills 8 per cent of the company's requirement.

Tight UK gas supplies and rising demand have forced up prices in the past year. British Gas has been forced to increase prices for power station customers because of the huge and largely unexpected growth in demand for new gas-fired power generation.

Norwegian gas, however, is unlikely to bridge the immediate supply gap that is looming for the mid-1990s. Norway will have little spare capacity available before the start-up of its giant Troll development in 1996.

Norwegian imports are unlikely to be cheap.

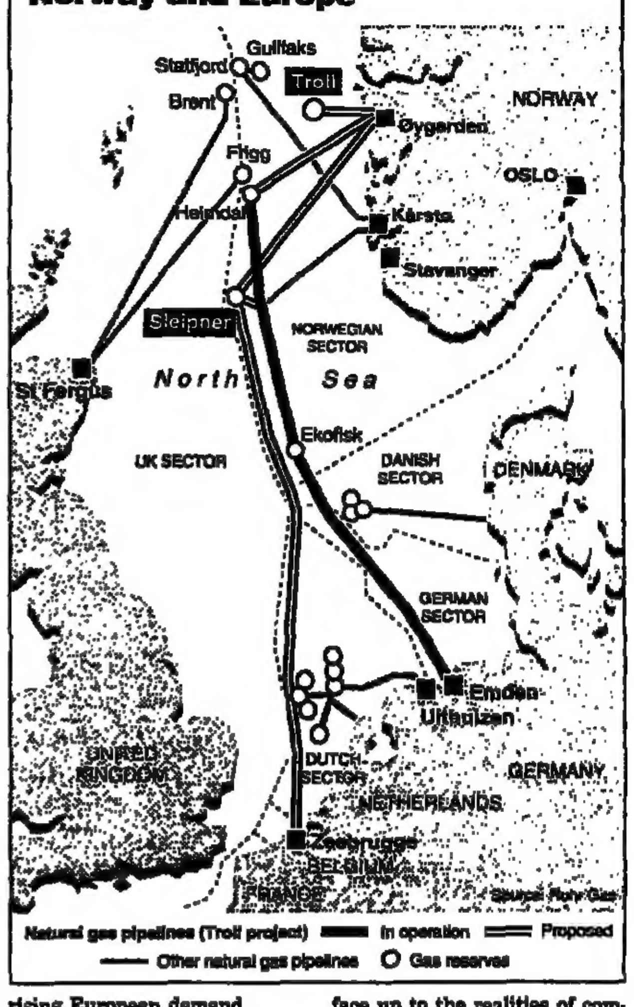
British Gas recently broke off negotiations with the Norwegians because of the high price of supplies – believed to be 21p to 22p a therm, compared with the average UK rate of around 18p a therm.

"We believe prices will rise by 20 per cent in the next two years, if the UK maintains a closed economy," said Mr Nick White, gas industry specialist at Arthur D. Little, the management consultants. Mr White said that imports could keep prices more stable towards the end of the decade, but will not stop them increasing.

At the same time, a cross-Channel pipeline link could suck gas out of the UK and bring UK prices into line with those in Europe, which are slightly higher. Long-term, the Channel link could provide access to cheaper gas from the former Soviet Union, as the republics, which hold the world's largest reserves, meet rising European demand.

While giving a broad welcome to the proposed move towards gas imports, Mr Peter Rost, Conservative MP for Erewash and chairman of the Major Energy Users Council, said: "Industry will have to face up to the realities of competition in the market. Prices could go up and be based more on the world oil price, but as long as it is genuine competition and not run by some cartel, I think it would be a major step forwards."

**Gas pipeline links between Norway and Europe**



MANAGEMENT: Marketing and Advertising

# Shocking tone for united colours

**Gary Mead and Haig Simonian** examine controversial questions of taste

Benetton has certainly achieved one of the basic aims of advertising – to get noticed – with its proposed ad featuring the dying moments of an Aids sufferer. The Italian clothing manufacturer has obviously decided that shock tactics work on the level of attention seeking; whether they work on the more profound level – increased sales – is not so simply resolved.

Benetton's Aids ad has met widespread outrage. The Advertising Standards Authority, the UK organisation which operates self-regulating codes of practice for advertising, last year ordered the removal of 3,000 Benetton posters featuring a blood-smeared new-born baby after protests from the public. At the time, Luciano Benetton, the company's managing director, argued the bloody baby caused little trouble in any of the 50 other countries where it was due to run. Since then, the number of protests has increased, even from Italy.

But what Benetton might be guilty of this time is not so much poor taste as thoughtless marketing. After all, many charities in the UK have been trying to shock the public for years and have yet to receive slapped wrists from the self-regulatory ASA.

The ASA received not a single complaint concerning The Romanian Orphanage Trust, which last year ran an ad, calculated to shock (right) in national newspapers. In a sense, the Trust could also have been accused of tastelessly exploiting a clever marketing gimmick to attract attention. But it was not, because public feelings have adjusted to some levels of shock in certain ill-defined contexts.

It now looks likely that the Benetton ad will not be welcomed by most British magazine publishers, most of whom have taken counsel from the ASA. The ASA – which has no power to ban an advertisement – watches two areas under the general heading of taste; sexism and general decency.

According to Caroline Crawford of the ASA: "The number of advertisements which might be termed sexist are on the decline, but the number of complaints about those advertisements is on the increase".

The ASA has studied the issue of sexual stereotyping in commercials and finds that it is, for the most part, a dying practice, mostly found in trade publications which have a predominantly male readership.

When it comes to the more general issue of taste – under which complaints against the Benetton ad would be considered – the ASA works on the basis of precedent.

"Certainly, over the last couple of years, advertisers have shown themselves much more prepared to use shock tactics to draw attention to their causes, their products, than was previously the case," says Crawford.

But the crucial difference is location – which audience the advertisement is attempting to target.

"With charities, for example, the public has come to accept that shock tactics are not just an acceptable but perhaps even necessary way of advertising. But the public is not prepared to see a commercial company do the same thing. It's also a question of corporate image, most companies would not wish to be associated with advertising which shocks," says Crawford.

The ASA has in the past cautioned Amnesty International a couple of times, and "if we felt a charity had gone overboard we would mention it to them. But most charities use national broadsheets to advertise in, where they can be fairly sure that the readership is not going to be offended. Shock ads might not be appropriate in other types of press," says Crawford.

That would seem to suggest Benetton's big mistake. Rather than build a carefully-planned campaign around the clever and now commonly used marketing trick of shock-impact, it has once again exploded with an ad which seems gratuitously and not purposefully shocking. One approach would have been to deal with important but delicate issues in a way which portrays the company as having a sensitive image.

Benetton itself feels differently. Oliviero Toscani, the freelance photographer who has been its advertising "guru" for the past nine years, staunchly defends the company's publicity.

Using "real-life" pictures underlines Benetton's commitment to social issues and its distaste for run-of-the-mill corporate advertising, dismissed as "banal". Benetton's publicity should make consumers think; selling clothes has nothing to do with it, Toscani claims.

So it may not be a mistake at all. While the British version of the monthly fashion magazine Vogue is not going to run the Benetton Aids ad, its sister publication in the US plans to do so. But only Benetton's – and US Vogue's – future sales figures can be a reliable guide to what advertising styles are now socially acceptable.


A matter of taste: this advertisement was intended to shock but it drew no complaints to the Advertising Standards Authority

# Carat gives Sundays the stick

As the UK's "quality" Sunday newspapers have spawned new sections and increased in girth, advertisers have become more interested in who actually reads what.

Ray Kelly, chief executive of Carat UK, the media space buyers, was increasingly frustrated at traditional industry-sponsored research which treats each title as a single entity.

So Carat carried out its own Quality Sundays Sections Readership Research – Quaser – with some surprising results. It covered the Sunday Times, Observer, Sunday Telegraph and Independent on Sunday.

The research found, for instance, that the Sunday Times business section was one of the least read sections of the paper, despite charging premium advertising rates.

Giving the main news section a base of 100, the business pages scored only 57 and only 52 on the index of up-market AB readers. On the same index, the review section scored 90 and 96 respectively even though advertising rates are lower. Low female interest in business could be one of the reasons for the difference. On value per £1 for AB adult readers of the Sunday Times, the business section scored 54 compared with 346 for the review section.

The business section was well-read by those who did read it – 111 on the index – but there were four times the number of "exposures per £1" in the review.

Other findings were that the amount of time spent reading the four Sunday papers was very similar at around 113 minutes and that AB readers spent less time than the average.

The research was carried out by re-interviewing more than 1,000 regular readers identified by a large general consumer research panel. Data on lifestyle and product use is now being added.

Raymond Snoddy

# Airlines set fair for improved service

**Nikki Tait and Daniel Green** report on trends that may mask a move to higher prices

Has "service" become a buzzword in the traditionally utilitarian US airline industry? Or is it a marketing wheeze, masking a push for higher prices?

While European and Asian airlines have been soft selling to business customers for years, US carriers have started to flaunt business class services for the first time on internal routes.

Lavish marketing literature – displaying roses on dinner-trays, foot-rests, and wide leather seats – is becoming rife. Northwest Airlines, for example, plans to introduce personal videos for all economy class travellers, and is putting seatback televisions into all its aircraft.

But US air travellers may have cause for scepticism. After the hefty fare-discounting of the past 18 months, there are signs that internal fares are firming. All carriers would like to push the trend further, and some of the latest initiatives seem designed to achieve just that.

Perhaps the loudest noises have come from American Airlines. With a good deal of fanfare, the Dallas-based carrier announced that it would reconfigure 10 DC-10 aircraft used on its seven flights-a-day service between New York and Los Angeles. Out would go almost 100 coach seats, and in would come a new "business class" cabin, housing up to 52 higher-margin passengers.

American suggests that the domestic US market is to copy the international marketplace, where three-tier pricing is commonplace. The motivation would be the increasing number of "global" travellers who demand continuity of service.

It did not take big rivals like United and Delta long to retaliate. United tartly observed that it revamped its own business class last November and that this is already available on "feeder" flights – domestic flights which connect with aircraft going on to international destinations. Delta, in more mild form, makes a similar observation. Even Air Canada hopped on the bandwagon, announcing an overhaul of its DC-9 fleet, providing "executive class" on all flights between the US and Canada.

Soft sell: airlines are stepping up efforts to attract business class passengers

A solid pricing argument can be made for the three-class system. A full economy fare for LA to New York is $752. A first class ticket is $1,288. American says the new business class fare will be equidistant between these two levels - at around $1,000.

The key unknown, however, is how many passengers will want the intermediate service. Those extra dollars will not buy all the first class facilities – personal video screens, for example – but they will achieve extra leg-room, leather seats, and a superior meal service.

On the plus side, business class sells elsewhere in the world, and MGM Grand, owned by West Coast businessman Kirk Kekorian, has prospered by providing upmarket facilities on the LA-New York route.

That said, some travel agents are cautious. One Manhattan agent noted there was "not much demand" to existing business class feeder flights.

Similar impressions in Europe have taken years to overcome. Market research showed passengers' priorities were safety and cheap tickets. No frills services on Laker and People Express, where passengers could bring sandwiches and load their own luggage, were the result.

Says Virgin: "We don't regard seatback screens as soft-sell. We have had calls from passengers to check whether a flight has them or not." Virgin's other ploys are among the softest sells in the business: free head massages and aromatherapy kits to help you overcome jet lag.

In the heavily regulated world outside the US, such extras might make a difference to customer loyalty: BA, JAL and Virgin all charge £2,895 for a business class return fare from London to Tokyo.

Northwest Airlines is spending $70m on personal videos as part of a general $450m upgrade. More grandiose developments, which might allow the system to provide home shopping facilities and viewing of live sporting events, are promised for the future.

The airline, moreover, was frank about its motive, noting a lowly standing in the "customer preference" league. More objective observers might put the point more bluntly, saying that Northwest became notorious for shoddy service in the wake of a troublesome merger with Republic Airlines in 1986. Whether free videos make amends remains to be seen.

TECHNOLOGY

# Youthful new look for pylons

Electricity privatisation has prompted a redesign of Britain's most familiar landmarks – the giant pylons which stride across the countryside from power stations to cities.

Since 1935, when the national grid was formed, the towers supporting the grid's high-voltage lines have grown in size as the demand for "juice" has grown. The tall lattice structures still bear the hallmark of the original Meccano-type towers designed for the old Central Electricity Board in the 1930s.

But new shapes are being evaluated by engineers and advisers of the National Grid Company (NGC), the privately based specialist group, which has inherited the bulk power transmission system from the now defunct Central Electricity Generating Board.

The most striking new shape is the folded plate tower, an elegant steel structure resembling motorway illumination poles. It has three gull-shaped wings to carry the six bunches of conductors charged with up to 400,000 volts.

Latticed steel is present in all the other new designs. Most are based on a new standard model so far only used on the lines connecting Scotland's Torness power station with the main transmission system. Known as the L12, the model has upward-swept arms compared with the drooping arms of most British pylons.

The work of the designers is prompted by another by-product of privatisation – the proposed 1,800 MW gas-fired power station at ICI's Wilton site on Teesside, which requires the biggest extension to the national grid for 20 years.

The project has stirred fears about the effect of new power lines on such beauty spots as the Vale of York. But the changes are not only about appearances. The lighter and more slender L12 was developed because of the introduction in the 1980s of all-aluminium alloy conductors to replace steel-reinforced cables.

The designers hope to have a portfolio of three or four new options ready by the spring.

Maurice Samuelson

Newly privatised UK utilities are expecting IT to give them a competitive edge, writes **Dave Madden**

# Light at the end of the tunnel

Thames Water's customer information system is one of its biggest capital investments – second only to the London Ring Main, the three-metre diameter tunnel surrounding the capital.

Although the project is one of the more ambitious information technology developments undertaken by a UK utility, it is not unique. Rather it illustrates the vast scale of IT investment in the newly privatised water and electricity industries – and the pivotal role that investment is playing in creating a competing, and competitive, utilities sector.

The water industry has some £25bn to spend on capital projects in the decade to 1999 – of which around 10 per cent will go on support systems.

The Water Services Association, which represents the 10 big water and sewage companies in England and Wales, says that £275m of the industry's £2.29bn capital expenditure last year went on "miscellaneous projects", of which IT constitutes the bulk.

It is tempting to view this as some sort of "privatisation dividend", a reaction to years of public sector starvation. But money is not just being spent for the sake of it.

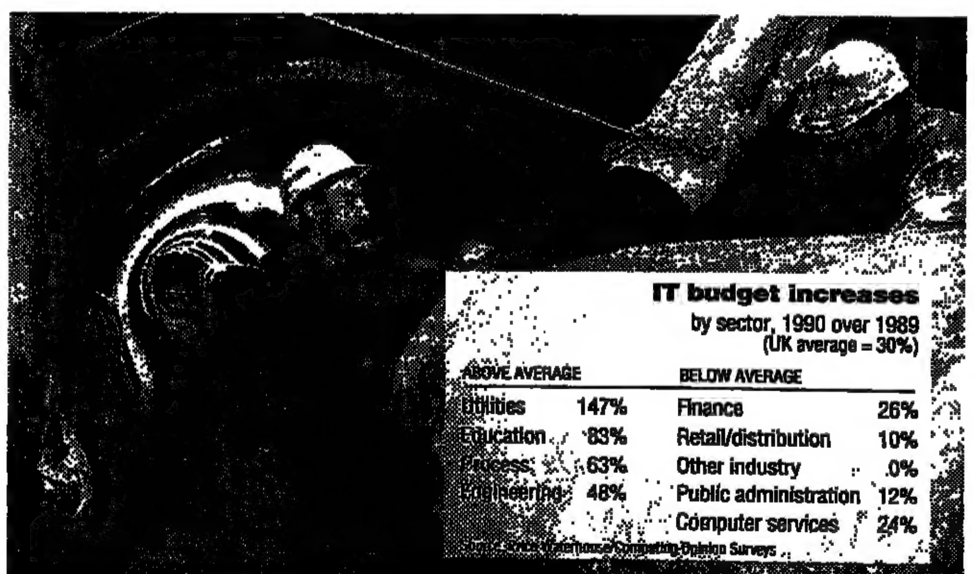
First, individual systems face rigorous cost-benefit analysis. "There is no question in my mind – the National Power board takes a highly commercial view of return on investment," says John Handby, IT director.

Second, some of these projects are driven by pre-privatisation IT strategies: Thames Water set its agenda in 1986; Welsh Water is building on its integrated business information system, conceived in 1985.

There is no doubt, however, that privatisation accelerated programmes and changed priorities. "Privatisation was not the catalyst but it fuelled the process," says Jeff Maynard, Welsh Water's IT manager.

But what is happening now says Declan Good, managing associate of consultants CSC Index, is that these companies are shifting emphasis from mandatory projects to more glamorous competitive initiatives. This transition is nowhere more evident than at National Power, the biggest electricity generator.

National Power inherited a fragmented IT infrastructure. It had lost IT and telecommunications assets, including its central mainframe, to Nuclear Electric in the dismantling of the Central Electricity Generating Board. Its remaining technology was complex, often incompatible and, says Handby, its core business systems were incapable of meeting the demands of its new commercial environment.



**IT budget increases**
by sector, 1990 over 1989
(UK average = 30%)

| ABOVE AVERAGE | | BELOW AVERAGE | |
|---|---|---|---|
| Utilities | 147% | Finance | 26% |
| Education | 83% | Retail/distribution | 10% |
| Process | 63% | Other industry | 0% |
| Engineering | 48% | Public administration | 12% |
| | | Computer services | 24% |

Source: Price Waterhouse/Computing Opinion Surveys

After a "survival phase", in which it secured short-term solutions to keep the business running, National Power committed itself to a substantial investment in a radical IT infrastructure to underpin the new company. The programme is one of the largest computing and telecommunications projects ever undertaken by a company in Europe.

It comprises core hardware and systems software – Amdahl mainframe and Digital Equipment Vax machines, a new company-wide network, applications, tools and procedures. When it is completed 70 Vax machines will be distributed across the company linked to 3,000 networked Compaq personal computers.

Handby's priority has been to devolve computing to the remotest parts of an unusually dispersed organisation. In technological terms that has meant single-screen access to an integrated network.

But its effect is farther reaching. "We are building a true networked organisation," says Handby, replacing the formal hierarchical culture of a public utility with a "flatter, highly responsive" structure, which has shifted power from corporate headquarters to the power stations themselves.

Distributing technology "is as clear a signal of intent", Handby says, "as getting rid of the executive loos".

National Power's IT strategy was developed in just three months. It is now 18 months into an aggressive three-year programme. This has seen it:

- Implement a company-wide communications network, called Unity;
- Install new hardware and systems software in new data centres;
- Design, build and roll out a series of applications: office systems, procurement, work management, financial reporting – and an innovative operational information system which gives the business access to a reservoir of operational power plant data.

National Power's experience is exceptional but its conviction that IT will prove an agent of cultural change is shared.

Maynard expects IT to "empower Welsh Water workers" – but that does not translate into a uniform approach. Good says the scope and ambition of IT initiatives across these utilities is conditioned largely by the management style they inherited, and their relative sophistication when they "hit" privatisation.

But there are clear priorities emerging. The first is customer service systems.

At first sight this is hard to fathom. Water companies retain a monopoly, as do the electricity suppliers in the domestic market, until full deregulation in 1998. So is their interest in customer service systems more than just a fashionable import from the US?

"We simply would not survive very long under the new regime if we didn't take this seriously," says Maynard.

Customer service initiatives address three interrelated issues: inflexible billing systems; scattered, and often incompatible customer databases; and inferior customer service organisations.

Of these there is no doubt that privatisation has concentrated minds on the inadequacy of existing billing arrangements in both industries. As Maynard says, Welsh Water's customer accounting system "handles our most important customer contact".

Yet, says Good, these same systems are elsewhere "bogging companies down" to the extent that they can only introduce creative service products or complex tariffs with great difficulty, because they cannot bill for them. But while the motivation is the same, the approach varies greatly.

Severn Trent Water turned to IBM imaging technology as the basis of its customer service effort. Ian Hislop, director of computer systems, says the systems were built to deliver immediate improvements in the speed and quality of its response to customers.

Thames Water, on the other hand, is building a "one-stop customer contact point" at its customer centre in Swindon – from the bottom up.

This strategy, says project manager Peter Ratcliffe, is dependent on a complex computing and telecommunications infrastructure which will integrate all Thames's customer service contacts.

A second priority is for "work and asset" management systems. Asset management in both the water and electricity industries demands not just proper job or workflow administration but geographical information systems (GISs) to keep track of the network.

Thames Water is three years into its own IBM mainframe-based GIS project (it has 20,000 maps loaded so far). But, says Ratcliffe, it will take another five years to digitise Thames's own water and sewer network on top. The ultimate trick, he says, will be to give its customer and job management centres direct access to that integrated model.

In part these GIS initiatives are driven by legislation: the Street Work Act and respective customer charters oblige utilities to take better control of their physical infrastructure as well as their field workforce.

In the longer term, the emergence of an IT-based customer service culture among UK utilities raises the prospect that, ultimately, providing the service could be decoupled from owning and running the physical infrastructure.

In the mean time, says Good, "having the utilities around the place has certainly kept the wolf from the (IT consultants') door".

# Communications in power struggle

**By Richard Wilson**

Information technology managers grappling with the problem of creating corporate communications networks could do worse than look at the experience of Britain's three privatised electricity generators.

With the break-up of the Central Electricity Generating Board in 1989 into three competing generating companies – National Power, PowerGen and Nuclear Electric – the company's communications infrastructure was torn apart. The generators either lost or were forced to share vital infrastructure with their new rivals.

In 1990 National Power started a three-year programme to build optical fibre networks between its 43 sites which would support the company's needs for voice, data and videoconferencing until the end of the decade.

The network would transform the generator's business by improving efficiency, changing the way it worked with its customers and providing revenues in its own right.

Faced with a similar problem PowerGen had to completely rebuild the infrastructure in its 26 sites. To keep costs down conventional copper cabling was used to network the company's 2,500 PCs and workstations. According to Jeffery Jones, PowerGen's telecommunications services manager, optical fibre was only used when necessary to meet network capacity requirements or for safety considerations within power stations.

As a result, by the end of 1990 PowerGen had spent more than £6m on its telephone and computer networks.

National Power's was a more ambitious programme costing £20m, but Chris Yates, head of telecommunications services, was convinced the long-term approach to the network was the correct one. "We did not plan to do this again in another two or three years, which other companies may find themselves doing, like it or not," he says.

The first priority was the company's phone network with 15,000 extensions spread around the country and connected by lines leased from BT, formerly British Telecom, or Mercury. Even before this was finished at the end of 1990, important decisions had already been made about which equipment to use in the rest of the programme.

Yates decided to use a single supplier for the core network hardware and the network management software. It would be easier to gain the operational expertise which would improve network efficiency and contain the running costs.

AT&T of the US was chosen to supply the core network infrastructure which included more than 2,000 miles of optical fibre cable and 1,000 miles of copper cable.

A team of four contractors were used to build the network, and the overall project management responsibility was shared between National Power and PA Consulting.

National Power decided not to put the main contract out to competitive tender even though it could have reduced the final cost. "For a key product such as this you cannot afford to go to competitive tenders and the professional relationship with our suppliers has more than repaid that decision," says Yates.

The quality of the relationship between AT&T, the contractors and National Power meant that the project was completed in nine months. This was despite the unforeseen difficulty of flying equipment from the US at the height of the Gulf War.

According to Yates, current network usage did not dictate the need for high-capacity optical fibre. He expects it to be five years before the company sees the real benefits of its decision to use more advanced optical fibre for most connections.

At Power Gen, Jones is already reconsidering the need for increasing network capacity with optical fibre to the desktop. "The need for document imaging may force us down the route for greater use of fibre," he says.

National Power expects to gain the competitive advantage from its early investment in optical fibre. "The choice of fibre over copper will influence the company's business over the next 10 or 15 years," says Yates.

CINEMA

# Betrayals of faith

LIFE ON A STRING
Chen Kaige

BLACK ROBE
Bruce Beresford

HORS LA VIE
Maroun Bagdadi

MY GIRL
Howard Zieff

ZERO DE CONDUITE and BOUDU SAVED FROM DROWNING
Jean Vigo and Jean Renoir

To tell you that *Life On A String* is a Chinese film about the search for wisdom will not, I realise, cause a stampede to the box office. To many Westerners Chinese wisdom has much the same appeal as Chinese water torture: insistent, timeless, litanistic, wearing down resistance by its metronome certainty.

*Chen Kaige's* film is, as it happens, masterly. But many filmgoers at Cannes last year felt stupefied, including the festival jury who left it prizeless. The maker of the ground-breaking *Yellow Earth* here gives us an old minstrel-saint and his young apprentice, both blind, leading each other across mountains, valleys and burnished terracotta deserts. They are in quest of – what? Our only clue is in the surreal prologue, set in an azure-hued limbo hung with white funerary tatters, in which the old man as a youngster receives *his* old master's dying wisdom. Something about the thousandth string breaking on his lute. Something about his only then finding the true way to sing.

But this string is a long time a-breaking. "Sixty years later," as the caption tells us introducing the main story, the now ageing songster and his pupil are still only on about string 800 and their trek across China sets new standards for the word picaresque. One moment they are lingering by a waterfall-side cafe where a village idiot, a pretty girl and Buddha-like boss sketch archetypal figures we will meet and re-meet later. The next moment the two heroes are dots in a ravishing pattern of rift valleys. Later still they fetch up at a village where the boy's romance with a local girl – she giggles, she tumbles him in a haystack, she crumbles sunflowers over his head – plays havoc with the religious responsibilities of his calling.

But it is those responsibilities that are on trial in Kaige's film. When the "truths" that guide us through the story are finally revealed as fraudulent, we are as startled by this moral handstand as we are by the one in Mozart's Magic *Flute*. There, you recall, the man character-assassinated in Act 1 by the lady with the show-off aria turns out to be all-wise and good in the following acts.

*Life On A String*, like the rival Chinese masterworks of Kaige's compatriot and one-time cameraman Zhang Yimou (*Red Sorghum*, *Ju Dou*), has caused flutters in the neo-Maoist hen coop now occupied by those responsible for Tiananmen Square. The film is a fable about dying dogmas – for religion read communism – and about the senility that passes for wisdom among those who legislate over our lives. The measured pace is vital to the movie's strategy. By spreading the glow of "eternal truth" over so many miles and man-hours it lulls us with the opiate assurance of (seemingly) immutable dogma. Then with a snapped string all its own it shows the boy betrayed, the girl thrown to her doom and the old man, his own last mental chord broken, chirping into the void.

There are some longueurs, though the film has been tightened by eight minutes since Cannes. And Eastern symbolism is not always accessible to Western powers of assimilation. But even to the most floundering Occidental such as myself, the film has a piercing beauty of image and richness of purpose.

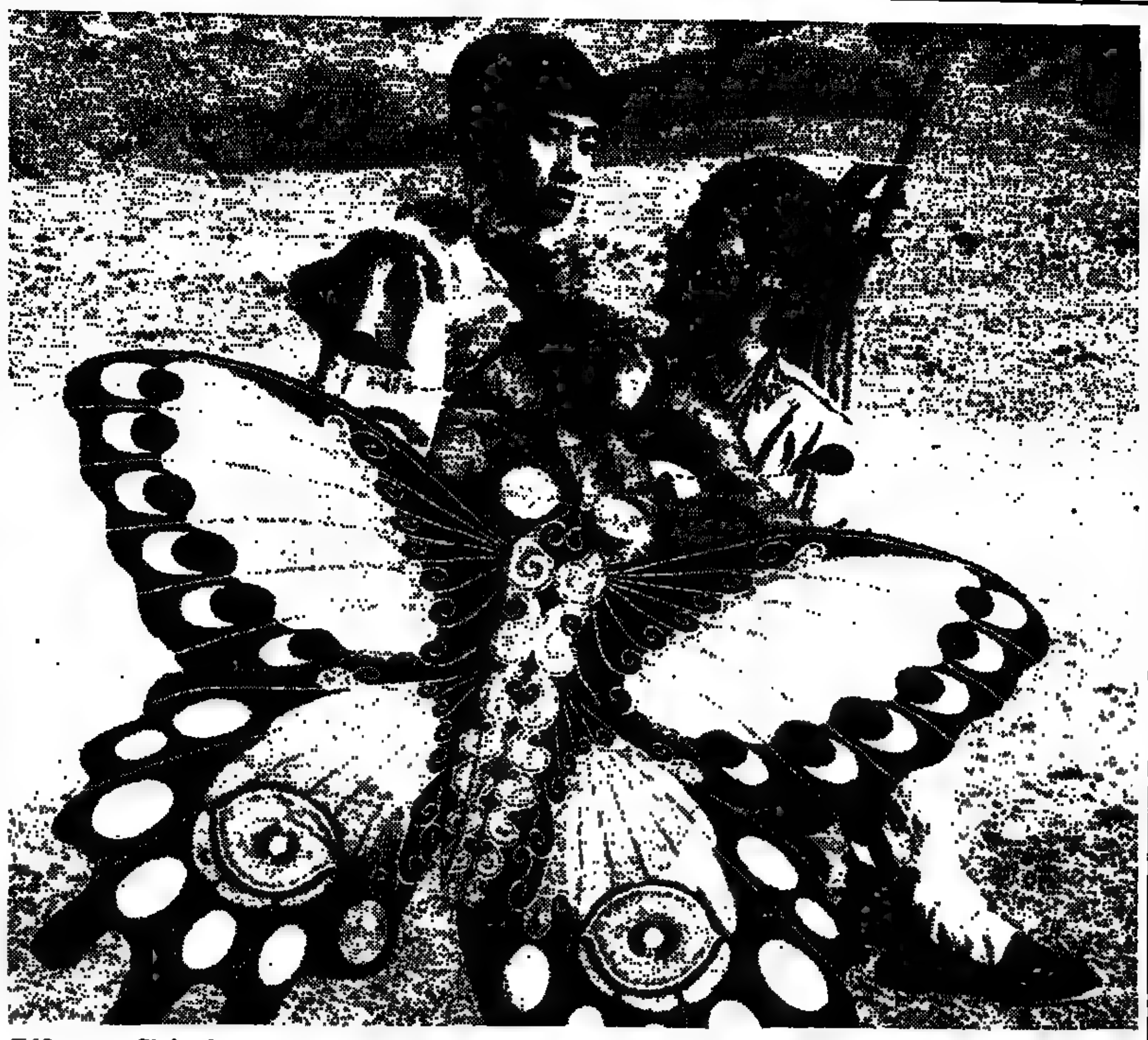
★

*Black Robe* is also about the faith that betrays. As directed with sombre majesty by Bruce Beresford of *Driving Miss Daisy*, novelist Brian Moore's tale of a 17th century Jesuit priest and his companions crossing 1500 miles of Indian territory to relieve a far-flung fellow missionary is given a scenic ride through coldest Canada. Amid snowscapes that howl around our ears the scarce-known cast – only Lothaire Bluteau, formerly Jesus of Montreal, is familiar as the saint-faced hero – stumble across historic North America towards meaning or meaninglessness.

Moore's novel was a Pilgrim's Progress for the post-Conradian age. For this group of men God was not waiting at the end of their journey: only a variety of Kurtz-like demons embodied in the snowstorms, the white-water rivers and the tribal savages who capture and torture them.

The book could have made a rousing Hollywood romp with Richard Gere, say, swashbuckling in Jesuitic black against back-projected winterlands. Beresford instead plunges into the real wilderness and gives the story a lyric nastiness worthy of Werner Herzog. In a calm woodland an Indian arrow suddenly pierces a white man's neck. A capering yellow-faced dwarf rattles a charm instrument at our hero. An aged Indian has a prophetic vision of the island we will soon see him die on. And everywhere the scenic textures are rough as sackcloth when not white as death.

Perhaps the final icy laughter of *Aguirre, Wrath Of God* does not ring out. And whenever it seems about to, we are warmed by the gorgeous chords of Georges Delerue's music. But *Black Robe* is a brave film: not just for the physical daring of taking the story into the wild, but for the moral daring of questioning God, doubting grace and giving us pre-Kevin Costner Indians who are every bit as mad, bad and unpredictable as record rather than revision suggests.



'Life on a String'; or, as you wish, Chinese water torture

★

With a loud bump we come down to Maroun Bagdadi's Hors La *Vie*. This French-Italian-Belgian movie about hostage-taking is an assembly-kit political thriller. In a moment of madness the Cannes jury that ignored *Life On A String* gave it a Special Jury Prize. Perhaps they liked the telegraphic simplicity of its story, wherein a young French reporter (Hippolyte Girardot) kidnapped by Arab terrorists in Beirut is passed from one safe house to the next while we tick off director Bagdadi's shopping list of Essential Scenes.

These include the hero horrified by the cries of an unseen fellow prisoner; the video message he is forced to record for the world; the leaden, tendentious exchanges between East and West ("You're a lucky man – you've a pretty girlfriend, you're rich, handsome, French"); and the frequent dashes from house to house, with the hero in one instance dressed as a woman.

I found myself wishing the woman were Sally Field and we were back with the gutsy melodrama of Not Without *My Daughter*. Though based on real-life photographer Roger Auque, this hero and his story are played and scripted with no vitalising particularity at all, as if he were Everyman in Every-Troublespot.

★

In *My Girl* an undertaker's little daughter (Anna Chlumsky) comes to terms with life and death in early-1970s Pennsylvania. Judging from the audience around me on the film's opening day in Los Angeles, you will need 300 kleenexes as little Miss Chlumsky loves and loses little Master Macaulay Culkin (*Home Alone*'s hero, here introspective in specs) and comes to realise that her father Dan Aykroyd is a human being too, even though he spends so much time in the basement beautifying corpses.

Set in the era of Nixon, Vietnam and the sexual revolution, the film counterpoints the girl's early discovery of life's dark side with her Dad's belated discovery of its fun side. He falls for cosmetologist Jamie Lee Curtis, who flirts and giggles with him and tells him caringly "Life isn't just death, Harry."

The audience is not sure where life ends and creative death begins. You need wellington boots to wade through the film's slushy music and you goggle in disbelief at Master Culkin's wet and winsome cameo, which must be an early bid to outwit the typecasters by the now $4m-a-picture superbrat. Some touching truths do slither into prominence late in the film and I did some eye-dabbing myself around scene 187. But the film melts in the mind soon after it has melted parts of your heart. Laurice Elehwany wrote the screenplay; the director was Howard Zieff.

Why not a classic French double-bill instead? Two influential films for the price of one. Jean Vigo's poetic hymn to schooldays and anarchy *Zero De Conduite* inspired Lindsay Anderson's *If* and Jean Renoir's Boudu Sauve Des *Eaux*, in which an endearingly disgusting tramp (Michel Simon) upends the lives of a rich couple, went to Hollywood to become *Down And Out In Beverly Hills*. If you liked the copies, the originals are even better.

**Nigel Andrews**

# Good Rockin' Tonite!

**STRAND THEATRE**

Cliff was there in the audience, and Lonnie, and Marty and genial Joe Brown. And there they were on stage, too, or rather the young musicians given the thankless task of impersonating the old rockers of the 1950s, who have now become old rockers in their fifties. Of course by the end everyone was on stage for "Good rockin' tonite", including Jack Good who was credited with devising and writing a show which is all about, well, Jack Good.

Good was the Balliol man who in 1956 was given the job of producing the BBC's first television programme aimed at that new social group, teenagers. Ignoring pleas for vignettes on mountaineering and fashion he rounded up the skiffle groups and first rockers, who were surfacing in Soho, and gave the world *Six Five Special*. It was such a success that Good was sacked. He moved to ITV and repeated the trick with *Oh Boy*. After that there were 30 years of relative obscurity before this, his last public engagement. In the summer he enters a monastic order in Texas.

Anyone expecting a coherent plot, witty dialogue, and perceptive insights is in dreamland. What you get is a re-creation of the shows, in particular *Oh Boy*, from a likeable cast, better at evoking the music than the charisma. Through it all Philip Bird, as the young Jack Good, plays the overbearing egoist, desperately hamming Shakespeare at times of crisis.

The only moments of hard core reality in this escapist evening were when the old rockers in the audience happily booed when the character playing that managerial Svengali, Larry Parnes, came on stage and when Michael Dimitri, as Gene Vincent, burst the zip on his leather trousers. The show was also slow on the litmus test of getting them dancing in the aisles: it needed Bird at the finale to grab a girl from the stalls to get the joint bopping.

Tim Whitnall was convincing as Eddie Cochran and endearing as Cliff, and Gavin Stanley made Billy Fury (who died nine years ago to the night) more interesting than he managed to be in life. But as an insider's view of a musical revolution it was a non-starter. As a party it was fine, and anyone mindful of "Move it", "Run around Sue", "Be-Bop-a-Lula" and scores more of those artless paeons to pure teenage love, will enjoy themselves tremendously for the knock down price of £10 a ticket, and for eight weeks only.

My nostalgia for the era suffered two setbacks: at the end, when Anna-Juliana Clare, one of the under-used women in the cast, belted out a song of the '60s, "Respect", which exposed the shallowness of '50s rock; and at the beginning, when the tucked and tanned celebrity audience eased into their seats, I realised that the years had shrunk to nothing the generation gap between "Good Old Days" celebrations of "Olde Tyme Music Hall" and "Rock and Roll" revival nights. Both satisfy the natural reverence of oldies for the innocent music of their youth.

**Antony Thorncroft**

# Sidewalk Sidney

**MANCHESTER ROYAL EXCHANGE**

Randhi McWilliams' prize-winner from the Mobil Playwriting competition is a two-hander pushed way beyond its natural length. This is a reflection not so much on the Mobil judges, who are dealing with raw scripts, but on the production team who should surely have done more to knock it into shape.

McWilliams is a West Indian Londoner whose theme is the familiar one of generational conflict between the immigrants of the 1950s and their British-born offspring. His innovation is to extend the gap by a generation, ignoring the children of the immigrants to look at what has happened to their grandchildren. Abandoned shortly after birth by his teenage mother, Dominic has been brought up by his grandmother, now dead, and his grandfather, Sidewalk Sidney, a tetchy repository of all the injustices meted out to his family and his community.

McWilliams' point, and it is a mature one, is that the issues of the old are different from the issues facing the young. Dominic has a white girlfriend. He is attacked twice during the play – but neither is the straightforward racist assault that his grandfather assumes it to be. The first is a simple knife attack by a black youth, while the second happens when he is mistaken for a mugger as he rescues an old white woman from a black gang.

What McWilliams seems to be gesturing at is that outdated prejudices are preventing young blacks from realising their potential. Sidney's cantankerous bitterness conceals the soul within him, which is glimpsed through his love for his grandchild and his unappreciated talent as a songwriter. With stick raised in rebellion against the great colonialist in the sky, Eddie Osei cuts a fine figure, grumbling comically to his dead wife or thundering, Learlike, against his fate. Charlie Caine also does well to ride the powerhouse of emotions that propel Dominic from amused indulgence to drunken anger.

Sidney will never be able to accept his grandson's values – he moans about the changes that Dominic has made to his songs, but those songs are the key to a cultural reconciliation between the two. In order to make his grandfather proud of him, Dominic must find a pride in his grandfather.

One can see why the play appealed to the Mobil panellists: it has an attractive wisdom and a marvellous command of a West Indian patois that is rich, rough and comically rude. It does not, however, display an innate grasp of theatrical structure: the characters seldom stray from their monologues, and the second act splinters into a series of crude episodes to which director James Maxwell's only solution seems to be to turn the lights up and down.

The tone, the design, the pacing are fatally prosaic. One can only hope that McWilliams' Mobil winnings give him the space to develop along more satisfying lines.

**Claire Armitstead**

# Humperdinck's 'Königskinder' comes to the Coliseum

A rare, risk-taking revival at the Coliseum tonight: the return to London after eight decades' absence of *Königskinder or The Prince and the Goosegirl*. An opera first performed at the New York Metropolitan in 1910 and at Covent Garden (among many other European theatres) soon afterwards, it disappeared into semi-perpetual neglect after the First World War.

The title will probably not mean a lot to the average English National Opera patron. The name of the composer – Humperdinck – should mean a lot more to that same average patron, but as the creator of another opera entirely, *Hansel and Gretel*. The story concerns a couple of fairy-tale lovers, the Goose Girl and the King's Son, also a Witch living in a forest, and a Broommaker, Woodcutter and Lone Minstrel from a town (Hellabrunn) full of disastrously self-important bourgeoisie; in the finale the lovers meet their death out in the winter snow, and are then mourned by a procession of Hellabrunn children. What on earth are ENO up to?

What they are up to, I have every confidence, is the revelation to a wider public of a late-Romantic masterpiece both important and ravishingly beautiful. The new production, put on in recessionary hard times and at noble risk to box-office health, is above all the love-child of Peter Jonas, ENO general director and a Humperdinck *appassionato* to whose personal insistence we already owe the company's magnificent modern-dress *Hansel and Gretel* of 1987.

In the audience for the 1986 production of *Königskinder* at the Wexford Festival – which is where many of us first fell under the work's spell – Jonas had been prominently visible, and talk of a proposed ENO staging mounted by the house's A-team of Elder (conductor) and Pountney (producer) began to circulate soon afterwards. This season, rumour hardens into fact; whatever may be the fate of the tonight's premiere, Jonas's active devotion to the Humperdinck cause must already have secured him a place in opera-intendants' heaven.

*Hansel* was the first of Humperdinck's ten stage works. Its worldwide triumph was for the composer a burden as well as a boon. *Königskinder* took a long while to achieve final form (in its original version of 1897 it had been a striking experiment, a play with music accompanying notated speech); Humperdinck only received the permission of the playwright Ernst Rosmer (pseudonym of Elsa Bernstein-Porges) to make a fully-fledged *Königskinder* opera after years of struggle.

The general rule about neglected operas is that there is often a good, practical reason why they got that way. The *Königskinder* case is, I believe, different. Its "problem" was not just that the runaway success of *Hansel* had still to be followed up, but that it launches itself as a work of apparently *Hansel*-like nature and substance: a fairy tale of folk-ish hue and melodic inflection that, like *Hansel*, opens and closes in that cradle of German Romantic sensibility, the dark forest.

Soon, however, it develops a considerable "differentness" – as David Pountney sees it, *Königskinder* operates on three interlinked levels, as fairy tale, symbolist drama with social-satire overtones, and (above all in the final act) allegory of the seasons with a powerful, ecologically-aware undercurrent: in his words, a vision of "eternal winter".

Admittedly, the complications of the plot bring with them an immense number of traps for the unwary. It is folk-tale simple – characters specified by jobs, not names – but also, as suggested earlier, folk-tale eventful. Its panoply of *echt-Deutsch* scenic and symbolic devices – geese, flower garlands, falling stars and poisoned loaves of bread, just for a start – provide a potentially deep chasm of embarrassment for performers and audiences to topple into together.

As in all worthwhile operas, what holds it all together, making the mixture not just meaningful but powerfully affecting and "relevant", is, of course, the music. The score allies post-Wagnerian construction and richness of vocal and instrumental sound to a radiant freshness of sensibility entirely personal to Humperdinck.

Pountney's word for the composer's creative stance is "innocent". This, his says, has determined his treatment of the opera. The example of his celebrated 1983 production of Dvorak's *Rusalka*, another late-Romantic fairy-tale transformed on the ENO stage into a Freudian fable of sexual awakening, is not appropriate here, since the chromatic sensuality of Dvorak's idiom has no parallel in *Königskinder*.

This is in no way to suggest that Pountney believes the opera simple-minded or archly naive; indeed, it's hard to think he could, or imagine anyone one coming to the opera for the first time who does not fall under the spell of its limpid sounds, shiningly broad spans of lyrical invention, and gentle but utterly purposeful dramatic modulation from light to tragically dark over the course of its three acts.

**Max Loppert**

INTERNATIONAL
# ARTS GUIDE
TODAY'S EVENTS

## ■ AMSTERDAM

**Concertgebouw** 20.15 Riccardo Chailly conducts the Royal Concertgebouw Orchestra in music by Schoenberg and Bruckner. Tomorrow and Sat: Richard Hickox conducts the Netherlands Chamber Orchestra. Sat afternoon: Frans Bruggen conducts the Netherlands Wind Ensemble (6718 345)
**Muziektheater** 19.00 Hartmut Haenchen conducts Harry Kupfer's production of Die Frau ohne Schatten, with a cast led by Brian Hill, Ellen Shade, John Brocheler, Deborah Polaski and Jane Henschel. Runs till Feb 21, with next performance on Mon. Tomorrow: Nederlands Dans Theater in choreographies by Jiri Kylian, Hans van Manen and David Parsons (5255 455/credit card bookings 6211 211)

## ■ BARCELONA

**Palau de la Musica** 21.00 Piano recital by Ivo Pogorelich. Tomorrow, Sat and Sun: Jerzy Semkov conducts the Barcelona City Orchestra in Schumann's Fourth Symphony and Ravel's Left Hand Concerto, with Enrique Perez de Guzman (268 1000). Tomorrow in Gran Teatre del Liceu: Tchaikovsky's Queen of Spades (412 1466)

## ■ BERLIN

**Staatsoper unter den Linden** 19.00 Aida. Tomorrow: Zar und Zimmermann. Sat: Swan Lake. Sun: Jenufa (East Berlin 2004 762)
**Komische Oper** 20.00 Joachim Willert conducts Harry Kupfer's production of Orfeo ed Euridice, with Jochen Kowalski as Orpheus. Tomorrow: Bartered Bride. Sat: Entführung. Sun: Carmen (East Berlin 2292 555)
**Deutsche Oper** 19.30 Heinrich Hollreiser conducts Der fliegende Holländer, with Franz Grundheber, Sabine Hass and Hans Sotin, also Sat. Tomorrow: L'elisir d'amore. Sun: La Sylphide (West Berlin 3410 249)
**Schauspielhaus** 20.00 Milan Horvat conducts the Berlin Symphony Orchestra in Prokofiev's Classical Symphony, Paganini's Fourth Violin Concerto (with Thomas Christian) and Brahms' Fourth Symphony, also tomorrow (East Berlin 2272 261)

## ■ BOLOGNA

**Teatro Communale** 20.30 Maurizio Benini conducts Enzo Dara's production of Pergolesi's La serva padrona and Cimarosa's Il maestro di capella, with a cast including Dara, Bruno di Simone and Alida Ferrarini. Repeated on Sun at 15.30 (529999)

## ■ BUDAPEST

Tonight at 19.00, the State Opera has Rossini's Mose in Egitto, in a new production staged by Gabor Miklos Kerenyi. Tomorrow: Don Giovanni. Tomorrow at the Erkel Theatre: Die Zauberflöte. The Franz Liszt Chamber Orchestra gives a concert tomorrow at the Obuda Social Circle, with music by Beethoven, Mahler and Tchaikovsky. Pre-booking for concerts at the National Philharmonic Booking Office (Vorosmarty ter 1) and for opera at the Central Theatre Booking Office (Andrassy ut 18), also at theatre box offices.

## ■ FRANKFURT

**Alte Oper** 20.00 Dmitri Kitaenko conducts the Frankfurt Radio Symphony Orchestra in Barber's Adagio for Strings, Prokofiev's Second Piano Concerto (soloist Vladimir Krainiev) and Brahms' First Symphony, also tomorrow. Sun: Christopher Hogwood and the Academy of Ancient Music (1340 400)
**Opernhaus** 19.30 Stefan Soltesz conducts Peter Mussbach's production of Ariadne auf Naxos, with a cast including Anna Tomowa-Sintow and Seppo Ruohonen. Tomorrow and Sun: Die Zauberflöte. Sat: Moses und Aron (236061)

## ■ LONDON

**THEATRE**

● Night of the Iguana: Tennessee Williams' 1961 play about the manageress of a Mexican hotel and her quirky guests. Frances Barber, Eileen Atkins and Alfred Molina swelter in the heat of the jungle. Starts previewing tomorrow, Press night next Thurs (Lyttelton, National Theatre 071-928 2252).
● La Bête: British premiere of a new American comedy by David Hirson, directed by Richard Jones. Starts previewing tonight, Press night next Wed (Lyric Hammersmith 071-836 3464).
● The Cotton Club: the jazz musical inspired by the New York club, in an all-black production directed and choreographed by Billy Wilson (Aldwych 071-836 6404).
● The Gigli Concert: Tom Murphy's 1983 Irish comedy has wit, pathos and superlative acting from a cast of three (Almeida 071-359 4404).
● Faith Healer: Brian Friel's play about an artist's work and relationships. An Abbey Theatre Dublin production. Runs till Feb 16 (Royal Court 071-730 1745).
● For ticket information about all West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

**MUSIC**

**Coliseum** 19.00 First night of new ENO production of Humperdinck's Königskinder: Mark Elder conducts David Pountney's staging, designed by Sue Blane. Runs till Feb 28, with next performance on Tues. Tomorrow: Xerxes. Sat: Die Fledermaus (071-836 3161)
**Royal Festival Hall** 19.30 Franz Welser-Most conducts the London Philharmonic in Dvorak's The Golden Spinning Wheel, Beethoven's Third Piano Concerto with Piotr Anderszewski and Martinu's Fifth Symphony. Tomorrow: Ashkenazy conducts the RPO in Walton's First Symphony (071-928 8800)
**Queen Elizabeth Hall** 19.45 Henry Threadgill's Very Very Circus and Orphy Robinson's Anavas. Sat: David Willcocks conducts the Bach Choir in Carmina Burana (071-928 8800)
**Barbican** 19.45 Maria Ewing sings Strauss' Four Last Songs in an LSO concert conducted by Michael Tilson Thomas. Tomorrow: Tchaikovsky programme. Sat: music and dance from the ballet. Sun: Barbara Hendricks sings Barber's Knoxville (071-638 8891)

## ■ MADRID

Teatro Lirico La Zarzuela 20.00 Antoni Ros Marba conducts Roberto Gerhard's opera The Duenna. (429 8225)
**Auditorio Nacional de Musica** Tonight's concert of music by the early 18th century Spanish composer Antonio Literes is given by the Conjunto Barroco La Stravaganza. Fri, Sat, Sun: Cristobal Halffter conducts the Madrid Symphony Orchestra in music by Guinjoan, Halffter, Respighi and Sibelius (337 0100)

## ■ NEW YORK

**Avery Fisher Hall** 20.00 Charles Dutoit conducts the New York Philharmonic Orchestra in Roussel's suite Festin de l'Araignée, Beethoven's Fourth Piano Concerto (soloist Radu Lupu) and Nielsen's Fifth Symphony. Repeated tomorrow at 11.00 and Sat at 20.00. 00 (875 5030)
**Metropolitan Opera** 20.00 Last performance this season of L'elisir d'amore. Tomorrow: Fidelio. Sat: Der fliegende Holländer (362 6000)

## ■ ROME

**Teatro Olimpico** 21.00 Vermeer Quartet plays string quartets by Mendelssohn, Shostakovich and Beethoven (3234 890)
**Teatro dell'Opera** 20.30 Paolo Carignani conducts Carlo Verdone's production of Il barbiere di Siviglia. Runs till Feb 7, with next performance on Sun (488 3641)

## ■ UTRECHT

**Vredenburg** 20.15 Guitar and flute recital by Gabriel Yacoub and Jean-Pierre Rasle. Tomorrow: John Dankworth and the Rotterdam Philharmonic Orchestra play the music of Broadway. Sat: Graeme Jenkins conducts the Netherlands Radio Chamber Orchestra in music by Beethoven, Bizet and Britten. Sun: Combattimento Consort in a programme of baroque music (314544)

## ■ VIENNA

**Staatsoper** 19.00 Leopold Hager conducts Die Fledermaus, with a cast led by Barbara Daniels, Eva Lind, Rudolf Mazzola and Josef Hopferwieser. Tomorrow: Un ballo in maschera with Gabriela Benackova, Alberto Cupido and Leo Nucci. Sat: La bohème. Sun: Lohengrin (51444 2960)
**Volksoper** 19.00 Donald Runnicles conducts Christine Mielitz's production of Lady Macbeth of Mtsensk. Tomorrow: Kalman's operetta Die Zirkusprinzessin. Sat: La Cage aux Folles. Sun: Eugene Onegin (51444 3318)
**Musikverein** 19.00 Ulf Schirmer conducts the Vienna Symphony Orchestra, choruses and soloists in the Austrian premiere of Martinu's opera The Miracle of Our Lady. Tomorrow: piano recital by Oleg Maisenberg (505 8190)

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0730-0800 Moneyline
1230-1300 Business Morning
1330-1400 Business Day
2000-2030 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman
2300-2330 World Business Today
0100-0130 Moneyline

*Super Channel*
0800-0820 Business View
0630-0700 Business Insiders
2130-2200 (Tues) East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Wed) FT Business Weekly – global business report with James Ballini
2130-2200 (Thurs) Talking Heads – international issues

*Sky News*
1200 International Business Report
1130, 1730, 2130, 0430, 0530 (Thurs) FT Business Weekly

**SATURDAY**

*CNN*
0730-0800 Moneyline
0900-0930 World Business This Week - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week

**SUNDAY**

*Super Channel*
1600-1630 FT Business Weekly

*Sky News*
1330, 1690, 2030, 0030, 0230 FT Business Weekly

CNN
1900-1930 World Business This Week

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# The president sits it out

THE MARKET verdict on US President George Bush's State of the Union message and budget proposals is eloquent: equities and the dollar weakened, while government bonds rose. This implies that in the absence of any other than shop-soiled proposals to revive the US economy, the Federal Reserve will have to do what it can by cutting interest rates; but no quick results are expected. US economic policy remains paralysed by the burden of federal debt, while the private sector is equally crippled by debts of its own.

It is little wonder that Mr Bush's popular standing continues to slide. In a poll taken on the eve of his budget, no less than 73 per cent of the voters said that they thought the country worse off than five years ago – a substantially worse reading than that which drove President Carter to complain of a national malaise. Only 9 per cent saw any hope of short-term improvement. Meanwhile the current president is seen passively waiting for a *deus ex machina*, in the form of a cyclical consumer-led recovery, to rescue both the economy and his own hopes of re-election.

The latest readings on the economy are not encouraging. Real domestic final demand fell at an annual rate of nearly 2 per cent in the last quarter of 1991, so that the real growth rate of 0.3 per cent was sustained only by the improving trade balance. The administration itself expects this improvement to taper off sharply as growth among US trade partners slows, so its forecast of 1.6 per cent real growth this year rests entirely on a domestic turnround. The source of this is not the proposed budget, which is claimed to add only 0.6 per cent to demand, but monetary policy: "The moderation of inflation provides the Federal Reserve ample room to ease interest rates further if this appears warranted."

### Old favourite

The Fed might in fact have to offset the effects of the Bush proposals, in the unlikely event that Congress passed them. Both parties favour higher tax breaks and social spending, financed by defence cuts – $50bn over five years under the Bush plan, but much more if the Democrats get their way. This approach is obviously a more sensible use of resources than building unwanted weapons, but its economic effects would be slow, and initially might well be deflationary. Jobs and incomes will be lost in the defence sector, but tax cuts – and especially the president's unpopular old favourite, a large cut in capital gains tax – would go partly to restore personal savings. Very necessary, again; but no short-term stimulus.

### Growing danger

However, policies in an election year are framed in the short term, and in this time frame America's trade partners can only pray that the administration's forecasts prove more impressive than its budget proposals. If the economy remains depressed, there is a growing danger that the next election will see a rebirth of the sort of populism which gave us the Smoot-Hawley tariffs in the 1930s. The poll which showed such poor support for Mr Bush also showed a hunger for more public spending – with a fiscal deficit already projected at $399bn – and a forbidding 56 per cent in favour of a protectionist approach to preserving American jobs.

Protectionism has been publicly favoured only by a part of the Democratic leadership until now; but the president has shown in the past that when the shot is flying he, like the Duke of Plaza-Toro, is happy to lead his supporters from behind. The short-sighted EC stance on farm issues at the Gatt, which has bitterly offended the traditionally free-trade US farm lobby, can only encourage the chauvinist voices in both parties. Partners who find the idea of an isolationist US forbidding should reflect that their macroeconomic policies may also be helping to produce the result they fear. Mr Bush's dilemma confirms what has been clear ever since his election – that the US, the traditional locomotive of world economic growth, is out of steam and in sad need of an overhaul. If we are to rely on more than crossed fingers to lead an American revival, the motive power may have to come from outside.

# Deterrence in Europe

ON THE face of it, the disarmament measures announced by President George Bush on Tuesday night, and by President Boris Yeltsin yesterday do not directly affect western Europe. Both British and French officials were quick to point out that, even after these measures are implemented, Russia and the US will still have nuclear arsenals far larger than either Britain or France.

But officials in both London and Paris are well aware that the reverse arms race, if it continues at its present rate, will before long reach a point where the size of the British and French arsenals becomes a consideration affecting US and Russian decisions.

And without waiting for that point to be reached, it is already abundantly clear that the old rationale for the deployment of nuclear weapons in western Europe no longer applies. Mr Tom King, Britain's defence secretary, effectively admitted as much yesterday when he invited journalists to draw their own conclusions about the targeting of Britain's submarine-based missiles from Nato's declaration that it no longer viewed the former Soviet Union as an adversary. It no longer makes sense for British or French strategic weapons to be targeted on Russian cities.

The threat to western Europe from Soviet conventional power has now been removed. There is therefore no longer a justification for any Nato country to retain an option of being the first to use nuclear weapons. The remaining function of nuclear weapons is, so to speak, to deter each other. Given that there are a great many of them around, particularly at present in the former Soviet Union but potentially also in the Middle East and the Third World, no country wants to be exposed to the threat of their being used against it.

### Three choices

Three ways to avoid that risk suggest themselves. One is to be armed with nuclear weapons of your own as a deterrent. But that solution, if generalised, leads to a world with dozens of nuclear powers. Few theorists, and no political leaders, are prepared to say that such a world would be a safe one. Consequently there is more or less of a consensus on the preferability of a second and contrary option, which is to limit the spread of nuclear weapons as strictly as possible. That is the object of the Nuclear Non-Proliferation Treaty (NPT), of which Britain was a co-sponsor with the US and the Soviet Union, and to which France too is now a party. The awkward long-term question for Britain and France is whether, by insisting on the necessity of maintaining their own independent national deterrents, they do not risk undermining the NPT and making it more difficult to persuade states such as Kazakhstan and Ukraine to adhere to it. The awkward short-term question, for Britain in particular, is whether a decision to commission a fourth Trident submarine, which is due to be taken within the next weeks or months, might not in present circumstances be seen as a step in the wrong direction, sending a wrong signal to states now considering their nuclear options.

### Uniform security

It was perhaps with such thoughts in mind that President François Mitterrand recently suggested the necessity of working out a "European nuclear doctrine". Certainly Britain and France would be well advised, if they wish to retain their nuclear forces, to relate them as clearly as possible to the security of Europe as a whole. If they decide that a tactical air-to-surface missile is necessary as a deterrent against new nuclear powers, they would surely be well advised to pool their resources in developing it.

The third solution, compatible with both of the others, is the one suggested by Mr Yeltsin yesterday: a co-operative effort to build anti-missile defences. Implausible when President Ronald Reagan suggested it as a way of making nuclear weapons "impotent and obsolete", it becomes less so as an insurance against a single strike from a novice nuclear power. It is certainly worth examining, and if it goes ahead Europe should make sure of being included in it.

**Joe Rogaly** examines the process of change within the Indian economy

# Sundered chains

India's industrialists are braced for a shock. They may soon have to face competition. If they survive they could become serious players in the global markets. They are by nature survivors. "We enjoy the privileges of a monopoly in some of our businesses," acknowledged the beaming chairman of Kanoria Chemicals & Industries in Calcutta, "and we also welcome the government's new economic policy, which opens the market to all comers."

There was just one little thing. Competition should first be confined to Indian companies. Then the newly strengthened enterprises should try their hand at exports. Only when they had thus proved their mettle should foreign imports be allowed in. But if there is to be no foreign capital, I protested, local new entrants to highly capitalised industries will face impossibly high start-up costs. Mr S S Kanoria smiled expansively.

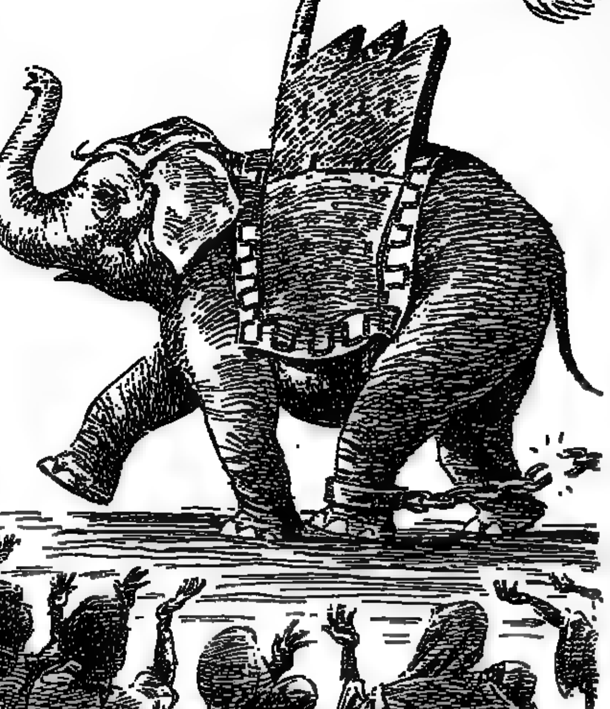
A company boss in another sector spread his hands to emphasise a different point. "Of course I built my business cheaply by bribing officials to grant licences," he confessed. "You call that corrupt. I call it the only way it has been possible to do business in India. Now, under the new economic policy, licences from the central government are no longer needed. We shall have to learn new methods." But Mr M Z A Baig, principal executive officer of Tata Services, insisted that the Tata companies had never resorted to bribes.

Another chairman, whose varied interests include a huge tea plantation, was even more positive about New Delhi's liberalisation of the economy. "As soon as the rupee becomes fully convertible," said Mr B M Khaitan of MacNeill & Magor, "we shall buy into certain companies in Britain." Watch out, Allied-Lyons.

Watch out, although not quite yet, Renault, Volkswagen and Fiat. The car manufacturing plant of Maruti Udyog is just a half-hour's drive out of New Delhi. Founded on the ruins of a venture initiated by the late Mr Sanjay Gandhi, Maruti is 40 per cent owned by Suzuki, 60 per cent by the government of India. The plant's snappy small cars have become the symbol of Indian yuppiedom. Last year they exported 5,000 of the 123,000 they made; now they are planning a new assembly line able to make 70,000 export models annually. Their employees, well paid by Indian standards, seemed to my untrained eye to be highly skilled, at home among the giant Komatsu steel presses and the Kawasaki robots.

As many Indians see it, the government's plan to increase Suzuki's stake to 50 per cent is a dangerously revolutionary act of creeping privatisation. Yet 10 years from now, Maruti should be wholly private – and able to undercut most of the world's small-car manufacturers. Before that, the 200 per cent duty on imports also has to go. Meanwhile, as the number of local carmakers grows (Tata has a new marque on the roads) the legal impediments to the expansion of activities by large companies are to be removed.

Indian tycoons sit in palatial offices, surrounded by electronic accoutrements familiar to their counterparts in New York, London or Frankfurt.



Outside you find the overpopulated pavements of Mother Theresa's universe; as soon as you come down for a taxi a skeletal hand appears before your face, begging. The India most foreigners can understand is confined to the urban industrialised sector, minus the city poor. Indians call it the "organised sector". The real India, a nation of villagers and rural labourers, is a closed book.

The organised sector accounts for perhaps an eighth of the population, or some 110m people. Most of the top-level Indians mumble that something must be done to raise the living standards of the other seven-eighths but, beyond rapid industrialisation and trickle-down, few seemed to have any solution.

I have doubts about the efficacy of trickle-down. If it comes, it will come slowly. Hundreds of millions of people will die in abject poverty before it does. Yet to those who believe that there is no alternative it must be conceded that the potential for rapid growth is there. All that is required is that New Delhi's politicians exhibit qualities superior to those of most other politicians in most other countries.

India's neo-Thatcherite trio – the prime minister and the ministers of finance and commerce – are trying to rise to the moment. The prime minister, Mr P V Narashima Rao, was regarded as a stop-gap when he formed a government last June, following the assassination of Mr Rajiv Gandhi during an inconclusive election campaign. Yet the 70-year-old Mr Rao has so far held his government together in spite of continuing violence in Assam (where a political deal may contain the troubles), the Punjab (where he hopes to hold an election), and Kashmir.

He has also presided over the formulation of the most radical programme of economic liberalisation in independent India's history. The question, much debated in New Delhi, of how much is genuine and how much has been forced on the government by the International Monetary Fund and the World Bank is secondary. The important point is that a start is being made on dismantling the quasi-socialist state built by Nehru and his successors under Soviet influence.

There will be setbacks. Soviet spares are missed, especially by the military. Rouble-rupee trade, built up by previous governments, has vanished. Inflation may topple the Rao government. The "exit programme", an Indian phrase meaning the redeployment or retraining or sacking of redundant workers, has already led to one strike. With no social security safety net, unemployment can mean a return to pavement life. Corruption will take at least a generation to weed out. The bureaucracy will take years to uproot. State governments will continue to be obstructive. You could cast doubt on the whole experiment. Mr Swarj Paul, who travels frequently to India from his Caparo Group headquarters in London, observes that, so far, little has really changed.

Yet Mr Rao's two key ministers seem absolutely determined to press ahead. The finance minister, Dr Manmohan Singh, is a distinguished economist. The commerce minister, Mr P Chidambaram is a lawyer and a Harvard MBA. With Mr Rao, this troika is trying to reconstruct India's economy. It has New Delhi's sophisticated economists, although not its academics, behind it. So far it has devalued the rupee, cut government expenditure, abolished industrial licensing, slashed export subsidies and introduced "exim scrip", a foreign exchange permit allowing companies to import goods to the value of 30 per cent of their exports. The scrip is freely tradeable; the margin on scrip sales constitutes a hidden export subsidy. Clearances for foreign investors, once held up, have suddenly begun to flow through. General Motors, General Electric, IBM and, sensationally in view of past antipathies, Coca-Cola have all signed recent deals. These and other liberalisation measures are advertised on New Delhi posters with the symbol of an unchained elephant.

The powerful beast may turn on its new mahout. Next month's budget will be a test of the popular will and the opposition parties' patience. Further public expenditure cuts are required by the deal with the Fund. The government's objective is that the overall public sector deficit, which includes the states and public enterprises, is to be reduced from 12.5 per cent of gross domestic product in 1990-91 to about 7 per cent within four years: British or American treasury officials could not promise the equivalent.

Dr Singh has also undertaken to reform the tax system, which at the moment depends heavily on excise duties. The Indian government proposes to restructure the banks (nationalised by Mrs Indira Gandhi), partly to introduce competition and partly to reduce the requirements imposed on commercial banks to hold large amounts of government debt at below-market rates or, as bad, to lend to borrowers in sectors classed by the government as "priority". (About half of lending is at subsidised rates of interest.)

He will also try to restructure his international borrowings, although from a position of less weakness than on the day he took office, when he found the foreign exchange reserves down to a fortnight's imports and had to pawn $800m of India's gold. Dr Singh is not relying on a surge in foreign investments, or a rush home of money from the wealthy diaspora of non-resident Indians. Just restructuring, exports and hard slog, with the loans to tide him over. Mexico, he points out, took seven years – from 1982 to 1989 – to come right. He muses that India could take half that time. Maybe. But the sub-continent's many fundamental economic problems will not be solved in one generation.



*BOOK REVIEW*

# Military leader, not a moralist

**ONE HUNDRED DAYS: The Memoirs of the Falklands Battle Group Commander**
**By Admiral Sandy Woodward (with Patrick Robinson)**
*HarperCollins (£18)*

It was George Orwell who remarked that in England "all the boasting and flag-waving, the 'Rule Britannia' stuff, is done by small minorities".

Writing more than 50 years ago, he noted that popular war writing always concerns tales of disaster and retreat. British military heroes have a tendency to remove themselves from the limelight after the main event, which makes this book an unusual contribution to the large Falklands library, as the 10th anniversary of the war fast approaches.

At a superficial level Admiral Sandy Woodward, commander of the British task force, gives the lie to the view that the Falklands experience was simply an accident of history with no wider application.

It is a celebration of a military victory won against enormous odds, asserting, to quote Mrs Thatcher who wrote the preface, "the massive sense of justice ever-present in the minds of the [British] men who fought in the South Atlantic".

Not for the first time we are reminded, in some detail, of the extraordinary logistics of the South Atlantic war. The book also notes the military co-operation between the UK and the US, which was to be echoed eight years later in the Gulf war and which saved men like Woodward from the consequences of UK defence cuts.

Its pages record the courage, military skills and professionalism of some of the men involved, while not attempting to ignore the extent to which events often turned on luck.

The opening chapter, ghost-written by author Patrick Robinson, describes the loss of HMS Sheffield – sunk by a French-made Exocet – in the staccato rhythm of the comic strip war hero. The style, however, settles down and there is enough material – including extracts from his own personal diary – to justify Admiral Woodward's reputation as the most controversial senior commander on the spot.

Take his first reaction to the Falklands, for example: "Twenty degrees warmer and it would be the yachting centre in the world. As it is, bloody awful, ... definitely not a jewel in the Queen's crown."

Woodward was an admiral in the Thatcherite mode: non-traditional, vaguely classless and often ruthless. During the war, he told journalists on the command ship, HMS Hermes: "South Georgia was the appetiser, now this is the heavy punch coming up behind ... This is the run-up to the Big Match which in my view should be a walkover."

Most of the criticism that followed came from those who considered him too confident. The Royal Navy lost nearly half of the ships it had started with and played little part in the final military defeat of the Argentine army. It is the British army commanders, not Woodward, who deserve credit for the recapture of the islands.

Being remembered as a wise man or a moralist does not rank high in Woodward's list of priorities. Nor does he want to be remembered as a politician or a diplomat. He does want to be seen as having helped lead Britain into war in the only way that had a chance of military victory.

The loss of HMS Sheffield is blamed on a mixture of bad luck and a succession of military lapses by officers under Woodward's command.

But the most controversial of the naval episodes, the sinking of the Belgrano, was in Woodward's view a necessary means to an end. He confirms that the enemy's battleship was moving away from the task force when it was hit, but insists that its speed and direction were irrelevant. "What counts is his position, his capability, and what I believe to be his intention." The Belgrano had been involved earlier in a pincer movement and, as far as Woodward was concerned, it could have become so again.

The book reveals how the conduct of the campaign was dictated by this kind of military logic. It was the navy that convinced Mrs Thatcher to send the task force, and the navy that convinced her to change her rules of engagement to make the sinking of the Belgrano possible. Once the islands had been reached, the war entered an irreversible military momentum.

To that extent, it is a chilling reminder of the subservience of politics in times of war, and the ease with which a minor incident can develop into a bloody conflict.

And yet Woodward was no Admiral Anaya or General Galtieri, the repressive junta chiefs for whom the invasion was a political necessity.

Returning to his office after the war, Woodward opened one of his first official letters. It was the navy's Pay and Pensions Department, advising him that his entertainment allowance was being trimmed.

Woodward comments: "That letter brought me down to earth with a considerable thump. This country really does have its own wonderful way of ensuring that *no one* gets too big for his boots." It is a pity that Mrs Thatcher didn't write that into her preface too.

**Jimmy Burns**

*The reviewer is the author of The Land that Lost its Heroes: the Falklands, the Post-War and Alfonsin (Bloomsbury).*

# OBSERVER

## Sid's Iron curtain

■ Don't talk to Sid Shaw about your aid to the former Soviet Union. For two years and more Sid, who has a nice little earner in Elvis Presley memorabilia with his east London business Elvisly Yours, has been trying to help Russians to help themselves, just like your western leaders say.

He started looking for opportunities after funding a trip to Graceland for a young handicapped Russian called Kolya Vasin, and eventually found Vesta, a St Petersburg do-it-yourself store run as a workers' co-operative after part- privatisation.

Now, 14 visits later, the fog-bottling negotiations for a joint-venture chain of hard-currency food and medical stores are complete. "The red tape's undone, we're registered and ready to trade," he says. "We've 2,000 feet of modernised floor space. The profit potential is good."

So off he goes to the City of London looking for a "few hundred thousand pounds" to start up... and you've guessed it. All he gets is the brush-off. "As soon as you mention Russia to the banks, the iron curtain goes down."

## Opting in

■ How does the recipient of an annual £250,000 salary make it sound as if he's setting a trend in modest executive compensation?

Alan Bowkett, new chief at Berisford, explains that by putting in over £1m of his own money – subscribing for 6m new shares at 19p (Tuesday's market close being 17p) – he is more than covering four years' salary. But is that quite the point?

Bowkett, who made his name by flogging bearings company United Precision Industries to the Japanese at a vast profit in 1990, may be showing confidence in his ability to breathe new life into the Berisford shell.

But the up-front investment has also secured him a very nice options package if all goes well: 6.25m shares under the company scheme at a price of 16p (attractive even if all goes only passably well); and a further 16m shares under certain favourable conditions if the share price tops 50p in the next two or three years.

He was off to a propitious start yesterday with the shares closing on the day's high of 20p.

## Q.E.D.

■ Kuwait's interior minister makes a change from politicians who claim to champion "civilisation" without saying what they mean by it.

Denying that the emirate abuses human rights, Sheikh Ahmed Hamoud added: "We are a civilised country. We do not have secret police operating after midnight."

## Digger's double

■ It is hard to believe that there is such a thing as a Finnish double of News Corporation's Rupert Murdoch, but it sounds as if the digger has just recruited him to his board.

The 59-year-old Aatos Erkko, chief executive of The Sanoma Group for the past 20 years, is nowhere near as well known as Hamish Maxwell, the former chief executive of Philip Morris who has also joined. But our man in Helsinki reports that he is a very big wheel. He owns the biggest selling daily newspaper in Finland – Helsingin Sanomat – and has extensive interests in magazines and cable TV.

In the past his family has provided several politicians, but the publicity shy Erkko does not interfere editorially in his newspapers. He also differs from Murdoch in that he does not need to borrow from banks and has no heirs. Part of the attraction, perhaps?

The latest appointments to the News Corp board suggest that Murdoch, unlike some other tycoons, is not afraid to strengthen his team by adding non-executives with clout. An overdue but welcome move, none the less.


"Is this any way to bribe the electorate?"

## Duty bound

■ Britain's official bumf-pushers are evidently adopting an amended version of Omar Khayyám's famous line in elaborating on the Citizen's Charter. In their case, "The moving finger writes; and having writ, writes more."

Already this week the Benefits Office's customer's charter has been followed by the Customs & Excise traveller's charter. But although the first has been dubbed the scrounger's charter, it would be inappropriate to nickname the second the smuggler's charter, because it has somewhat strayed from the point of the original exercise.

Whereas the idea behind such documents was to set out what users of the service have a right to expect from the officialdom running it, the latest effusion concentrates on the responsibilities the traveller owes to the customs.

For instance, Point 2 instructs: "Your first step is to decide if you have anything to declare...." By Point 5 you're told that it is only when you haven't that you should enter the green channel.

Point 8 is more permissive, however, in providing for duty to be paid not just in £ sterling, but by cheque or credit card. And Point 12, while stating that travellers must unpack and repack luggage if so asked, concedes that customs officers will help with repacking unless "operational circumstances" prevent it.

Whatever next? A police charter telling us to uphold the law, with perhaps a reminder that "operational circumstances" may oblige us to sign any statement put before us?

## In the pink

■ From meat-purveyor to meet-promoter. Having retired from running the Dewhurst butchers' shops in the privately owned and much indebted Vestey empire, Colin Cullimore has saddled himself with the publicly contentious role of director of the newly formed Campaign for Hunting.

One of his schemes to whip up support is to show that the sport is not the preserve of the upper classes. Sociological research has found that toffs constitute only 17 per cent of hunt-followers, he says.

## Lowdown

■ Trade secret let slip by National Theatre dresser Katie Morrow-Smith on BBC radio: If you're padding out a man in drag and want to give him a really saggy bosom, the best thing to use is birdseed.

*ECONOMIC VIEWPOINT*

# Some arithmetic for the UK Budget

**By Samuel Brittan**

Benjamin Disraeli was one of the few political leaders who had to be cajoled into becoming chancellor of the exchequer. For, unlike his arch-rival William Gladstone, he did not think that fiscal arithmetic was his particular métier. He was finally persuaded by an old pro who said: "They give you the figures."

Nowadays, they still give some figures to the chancellor. But the Treasury gives very skeletal indications to the public at large. So the annual Green Budget* produced by the Institute for Fiscal Studies, in conjunction with Goldman Sachs, is a godsend. For full value, it should be read together with the new Goldman Sachs UK Economics Analyst.

The documents give chapter and verse for the case for some discretionary fiscal stimulus over and above the automatic recession-induced Budget deficit, which I outlined without commitment in last week's Viewpoint. The argument is that the strain of German unification requires unusually high interest rates on the part of the Bundesbank, to which Britain is held by the ERM. This special situation is said to justify some departure from medium-term guidelines.

**A balanced Budget seems out of reach over the next parliament – although maybe not over a long business cycle**

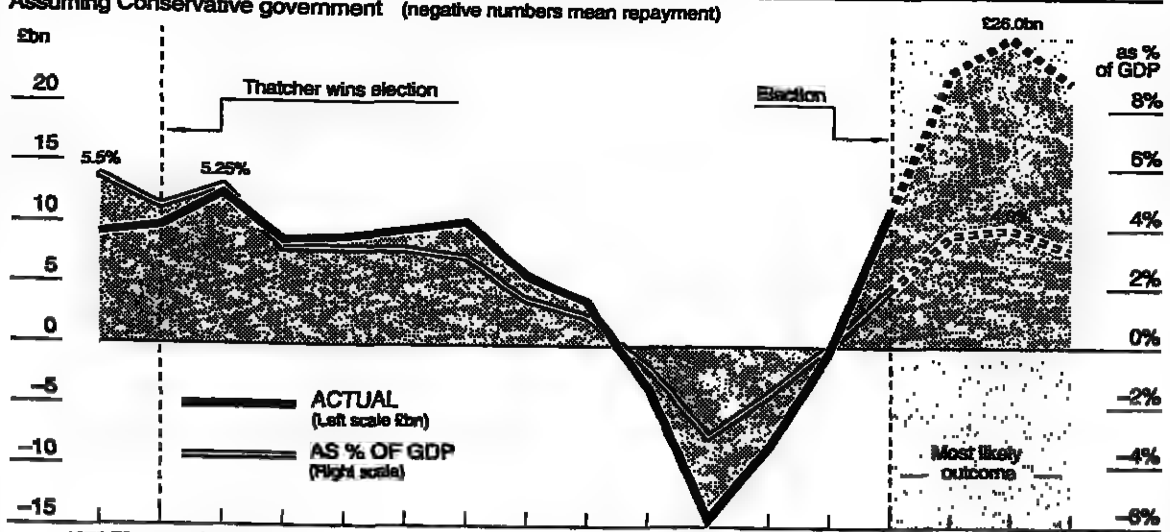
How is all this translated into terms of Budget arithmetic? The authors assume that there will be discretionary tax relaxations of £1bn to £2bn in the March 10 Budget – based not on any fine economic arithmetic but on a balance between what is politically required to resist pressure to leave the ERM or devalue and the need not to upset financial confidence.

Over and above these somewhat modest tax adjustments, the Green Budget forecasts some upward slippage in public expenditure plans. The net result is expected to be an increase in the Public Sector Borrowing Requirement from nearly £12bn in 1991-92 to £28bn in 1992-93, rising to a peak of £26bn in the following financial year, even if there are no further relaxations.

How worried should we be about such deficit numbers? In terms of sterling, they are much higher than the ones which horrified the International Monetary Fund in its bail-out operation in the middle 1970s. Expressed as a proportion of gross domestic product, the picture is, however, different. The PSBR during the last year of the Labour government came to 5.5 per cent of GDP. According to the present projections, it will reach a peak of 4 per cent in 1993-94 before turning down towards 3 per cent in the following year.

Thus the Conservative aim of a balanced Budget seems out of reach over the next parliament – although not necessarily over the whole business cycle, if we are back with old-fashioned cycles lasting a decade.

**UK Public Sector Borrowing**
Assuming Conservative government (negative numbers mean repayment)



Source: Treasury, Goldman Sachs

The Green Budget attributes to Labour the aim of a 3 per cent PSBR. Even with this latitude, a Labour government would have the greatest difficulty in making net additions to public spending (above those financed by tax increases) at least until the last half of a new parliament.

Whether it arises because the Conservatives are boxed in, or because Labour has freely chosen it, is a 3 per cent PSBR outlook sustainable? Paradoxically, the more credible the exchange rate mechanism parity, the more choice a government can have in how much to borrow before facing a run on its currency. Nevertheless, not all choices are equally sensible.

To keep the public sector debt to GDP ratio stable over the medium term, the PSBR should, on Green Budget arithmetic, be no higher than 2 per cent of GDP. To achieve the more prudent objective of a stable level of government net assets privatisation proceeds should not be counted. This leaves a PSBR aim of 1 per cent of GDP on present definitions – nearer to Conservative objectives.

The Green Budget draws comfort from the fact that even with a 3 per cent PSBR, public sector debt levels would not rise rapidly and start from relatively low levels. But that is hardly a reason for moving off in the wrong direction. More borrowing now means higher taxes later for a given real national income.

These debt servicing considerations would, however, deserve to be laid aside if more government borrowing allowed a sustainable increase in the real national income which we could not otherwise have. Would it? The Green Budget argument needs some unravelling here.

The underlying logic seems to be the following. In the authors' very considered view, the present savings ratio is likely to fall. Nevertheless, the authors admit that they may be wrong. In that case, an attempt to slash government borrowing, even in the medium term, "could well leave the economy very short of demand". This is the core of the economic argument for a sizable and continuing fiscal stimulus.

**UK TRADE: TEENAGERS' GUIDE**
Volume % change (exc oil and erratics)

| | Imports | Exports |
|---|---|---|
| 1986 | +7.1 | +2.5 |
| 1987 | +8.9 | +7.5 |
| 1988 | +14.6 | +4.8 |
| 1989 | +7.3 | +8.3 |
| 1990 | +0.2 | +7.4 |
| 1991 | -2.5 | +2.7 |
| 1991 1st half* | -4.6 | +3.7 |
| 1991 2nd half* | +4.1 | +3.1 |

*Over previous six months

Source: CSO

But is it valid? Like most fiscalist arguments, it leaves out at least two other possibilities. First, it ignores the likelihood of monetary policy coming to the rescue in the medium term. The need for high real interest rates in Germany is not permanent. Eventually the Bundesbank will have to reduce rates to nearer normal levels.

But there is a more specific UK point. If a country or region has a surplus of savings relative to requirements, the normal outlet is overseas investment. This means a current payments surplus to finance a capital outflow. That is how Japan and the old German Federal Republic managed to maintain high employment even when savings were also high. Anyone who supposes that the UK could never run such surpluses, or could never do so without devaluation, is quite excessively time-bound and has forgotten the payments surpluses as recently as the early 1980s, which were then attributed to oil.

* * *

What would I do? I am still not reconverted to fiscal tuning. But if some action has to be taken, it should be directed towards investment, private or public, and any tax cuts should be strictly temporary with a built-in cancellation date.

How should such tax cuts be allocated? It would cost £2bn just to reduce the basic rate of income tax by 1p. In my view, this would be the worst possible option. There is no comparison with a similar 1p tax cut made before the 1987 election when the public sector was moving towards surplus rather than large deficit. Even in political terms, there would, as the Green Budget says, be the risk of the government "appearing to panic and attempting to buy votes".

For about the same amount, personal tax allowances could be increased by some 10 per cent over and above indexation. It would also bring far more benefit to people with lower to middle incomes. The IFS points out for good measure: "Labour would find it politically hard to reverse such a change. But if it did not, it would find its scope for increasing public spending thereby reduced."

**'It is better to be taken out of tax altogether rather than face a reduction in the amount of tax paid'**

The IFS rightly goes out of its way to take a swipe at Labour's favoured idea of a reduced rate of tax band. "It cannot be written too frequently if the objective is to reduce the tax bills of the least well off, raising allowances is always more effective: it is better to be taken out of tax altogether rather than face a reduction in the amount of tax paid." It is a defect of an unreformed two-party system that Labour is taken much too much at face value as friend of the worst-off.

The Green Budget concludes that relief on non-domestic rates would do more faster for hard-pressed businesses than any further cuts in corporation tax. But better than either would be strictly temporary measures to encourage investment. If the expiry date were taken seriously it would not interfere with the structural changes in the 1984 Budget designed to remove distortions.

Neither the Green Budget nor anyone else is saying much about indirect taxes. This hardly surprising, as a 1 percentage point cut in VAT would cost £1.7bn. The "Regulator" allows the chancellor to vary indirect taxes at any time. Unfortunately, when used in the 1960s and 1970s, nothing was said about later reversals. An indirect tax reduction would, however, have its maximum effect in encouraging spending in the shops if consumers knew it was to expire soon – perhaps before the end of the calendar year. I would keep it in reserve as an emergency measure.

**Tax Options for 1992, 7 Ridgmount Street, London, WC1E 7AE, price £5.*

*LOMBARD*

# Man bites watchdog

**By Tony Jackson**

Since the Maxwell scandal erupted, the financial press has been zealous in rooting out those whose cowardice or venality allowed it to happen: the banks, the auditors, Maxwell's various helpers and subordinates. One group has escaped the lash: the financial press itself.

A handful of Maxwell's journalistic toadies have been held up to ridicule. Otherwise, the official line is that the investigative instincts of the press were thwarted by the UK's repressive libel laws. So the press is now calling for changes to the libel laws to make its job easier.

If any of the other guilty parties presented such a self-serving excuse, the press would have a field day. Certainly, Maxwell could not have exploited the US laws of libel in the same way. But in the UK, he was perfectly entitled to demand that any damaging allegation against him should be made good in court.

**Despite the enormities that Maxwell got away with by bullying and cheek, he was only one man against the massed ranks of the British media**

In doing so, he imposed on the financial press standards of proof we were unwilling or unable to meet. This was despite the fact that, as we knew very well, it was mostly a gigantic bluff. In his latter days at any rate, Maxwell could not conceivably have risked cross-examination on his business practices by an experienced barrister.

There is a richly comic aspect to this. Despite the enormities that Maxwell got away with by dint of bullying and cheek, he was only one man against the massed ranks of the British media. "Press hounded by individual" is a man-bites-dog story with a vengeance. The media have been too much on the defensive to see it.

The best excuse for the press, and not a very good one, lies in the nature of the challenge which Maxwell presented to journalists. From 1987 onwards, I covered his affairs for the FT's Lex column. Almost every time I spoke to him, he contrived to wrong-foot me one way or another.

This was largely achieved by sheer baffling inconsistency. At various times, he threatened to sue me and promised not to in any circumstances; flattered me and swore at me; complained that I did not consult him and, when I did, accused me of cowardice.

Above all, he lied like a trooper. The effect of this is not easy to convey. No experienced journalist works on the assumption that he is being told the truth. But properly used, the direct lie has its awkward aspects.

Some months before Maxwell's death, it began to be rumoured that his holdings in Maxwell Communication and Mirror Group were partly pledged as collateral against private loans. Since this was plainly crucial to the whole ramshackle structure of his empire, I phoned him to put the question. After a burst of tactical self pity – "why should I talk to you? Every time I do I get kicked around. Are you an honourable man?" – he flatly asserted that none of his shares was so pledged. As we now know, they almost all were. I was fairly sure he was lying, but that was beside the point. He was correct in assuming I would not undertake a long investigation on the off-chance of proving it.

In its own horrible way, some of the Maxwell treatment was salutary. Journalists are used to being treated with undue deference by a public nervous of the powers of the press. Maxwell, who as a newspaper proprietor hired and fired journalists wholesale, treated us with contempt. If we failed to nail him in revenge, that was hardly his fault.

*LETTERS*

## Consumer pays pollution tax

*From Mr Bryan Cassidy MEP.*

Sir, David Lascelles omitted one significant point from his excellent analysis of European Community ideas for a carbon (or pollution) tax ("A mission to make the polluters pay", January 28).

The "polluter pays" principle is the same as the "consumer pays". The environmental lobby seems to be unaware of this simple equation. Is it not better to offer industry tax incentives rather than punish its customers by increasing a tax burden which would be passed on in higher prices?

And what about the Japanese and the Americans? There is little evidence from the General Agreement on Tariffs and Trade and elsewhere to suggest that a good environmental example from Europe would be followed by our competitors, especially at a time of world recession.

Bryan Cassidy,
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*97-113 Rue Belliard,*
*1040 Brussels, Belgium*

**Fax service**
LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax for fine resolution.

## Treasury double-speak that denies companies project finance

*From Mr Peter McGregor.*

Sir, In the row over the EC regional aid one important factor seems to have been missed. This is that the Treasury's interpretation of the word "additionality" when in receipt of EC funds is completely opposite to its interpretation when UK finance is being provided.

A good example was the Product and Process Development Scheme (now suspended) of the Department of Trade and Industry, designed to assist companies to develop prototypes. Here the Treasury refused to agree to support being given if work on the prototype had already started, since "there was no additionality", in other words the work would be done whether or not government support was provided. In practice the result was that some companies' *second* best projects were financed, while, according to information to which I had access at the time, others with a good product could not finance it and had to sell it off to foreign competitors.

We shall really become a laughing stock if in addition to our ignorance of foreign languages we do not even know what our own words mean, or give them two opposing meanings. Federalism, subsidiarity, and now additionality.

Peter McGregor,
*Dacre Cottage,*
*Longworth,*
*Oxfordshire OX13 5HH*

## An additional burden on those who save, but with no commensurate addition to their state pension

*From Mr Paul Baker.*

Sir, Anyone concerned for the economic future of the nation in the light of a possible Labour victory should ponder carefully the thoughts of Mrs Margaret Beckett, the shadow treasury minister, as enunciated in your Personal Finance Supplement ("A real top rate of 59 per cent", January 24-25).

Savers, it seems, must suffer the additional burden of national insurance contributions along with so-called high earners since, says Mrs Beckett, the money they have invested may or may not have been worked for. In other words, if you choose to defer spending by saving, and create a nest egg for your retirement, that – in the eyes of the ingenuous Mrs Beckett – is tough, and another convenient tax source. There are others now whose needs are greater than yours (or, more realistically, with greater voting power).

Perhaps we might be told whether this *diktat* is to apply to National Savings, which, as a vehicle for harbouring investment, is as indifferent as any other to the means by which it was accrued.

The truth is, that despite the camouflage of the red rose, nothing has changed in the political dictum of the Labour party, which remains as always "from each according to his income, to each according to his vote".

Paul Baker,
*Knells Lodge,*
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*From H R Wynne-Griffith.*

Sir, Mr John Smith, speaking on behalf of the Labour party on the Today Programme (January 28), said that he thought it was unfair that people earning more than £405 per week should not have to pay national insurance contributions on their full earnings whereas people earning less than that did have to.

Mr Smith should be made aware of the fact that those earning more than £405 a week earn no state pension in respect of that excess.

People earning more than £405 a week *do* earn a state pension in respect of those earnings.

An increase in National Insurance contributions for those earning more than £405 per week is a straight income tax of 9 per cent on that excess. There is no state benefit given in return.

H R Wynne-Griffith,
*Burnett Waddington & Co,*
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## No plantation closure in Assam

*From Mr P Magor.*

Sir, In your survey on Kenya (January 6) Mr Julian Ozanne was wholly inaccurate in stating that plantations had been closed in Assam. In fact, great credit is due to the planting community in Assam, which continued normal estate operations and the despatch of teas despite the pressures of extortion, kidnapping and killings. On one occasion these pressures culminated in the cold-blooded murder of an estate manager.

It would be quite wrong to portray Kenya as benefiting from the problems in Assam.

P Magor,
*chairman,*
*Tea Producers Association,*
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## The re-design that changed the original nature of Milton Keynes

*From Mr Michael Edwards.*

Sir, Colin Amery's acute review of Milton Keynes after 25 years ("Milton Keynes, the view from the grid", January 27) is a telling diagnosis. But he is wrong to say that "what you see derives strictly from the plan created in the late 1960s . . .".

The actual development departed from the initial plan right from the outset in some crucial respects – which helps to explain why it is not ". . . of the calibre needed to make it a city".

The plan envisaged that the densities of housing and services would be at their highest along the grid roads. Every kilometre or so, at the points between the main intersections, you would come to dense housing, bus stops, schools, shops, bars and other services and feel you were moving through a city. Main road traffic would go at about 30mph so it would be safe to pull up. Built areas would only be separated from the roads around (noisy) main junctions.

One of the first things the Development Corporation did was to redesign the roads for high speeds. This entailed more noise (thus the hills and forests to absorb it) and made it too noisy and unsafe for buildings to adjoin roads or for kerb-side parking. Thus housing and work areas are cocooned in hills and forests, local commerce is largely invisible to passers-by and Mr Amery misses an urban feeling. He is not alone.

Some of us who worked in the original planning team remonstrated against this change, but to no avail. Perhaps we can try again in the Thames corridor.

Michael Edwards,
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FINANCIAL TIMES
Thursday January 30 1992



## Opinion poll shows 50% in favour of independence for Scotland

# Tories to tackle Scots separatists

**By Ivo Dawnay and Ivor Owen**

THE government yesterday moved to confront the mounting independence movement in Scotland by convening the Scottish Grand Committee for three days of public debate next month on the country's constitutional future.

Mr Ian Lang, the Scottish secretary, took the initiative in an effort to answer criticism that the Conservatives are ignoring a surge in secessionist sentiment north of the border and to highlight the Tory case for maintaining the status quo.

By convening the committee – comprising all 72 Scottish MPs – he also plans to squeeze Labour's devolutionist strategy by claiming that Scotland's choice is between maintaining the Union with England and Wales or independence advocated by the Scottish Nationalists.

The committee is expected to meet next month for one day in Edinburgh and two days at Westminster. It has no powers to take any decisions. Mr Lang is also planning to release an open letter to Scottish businessmen next week, calling on them to spell out the dire consequences of devolution or independence for Scotland's economy.

Yesterday, Scottish MPs in Westminster were agog at an

**Scots businessmen shocked by poll........Page 9**

ICM/Scotsman opinion poll showing 50 per cent of respondents favouring full independence, a 7 per cent rise in SNP support to 27 per cent and falls of 2 per cent each in support for the Labour party and the Tories.

Both the Tories and Labour made light of the findings by claiming that the result represented a protest vote.

In particular, they underlined the gap between the SNP's support and the numbers backing independence.

But, privately, several MPs agreed that Scottish disenchantment with Westminster was reaching a crisis.

Nationalist feeling has mounted rapidly in recent weeks, fuelled by the Tory defeat in the Kincardine by-election, the announced closure of the Ravenscraig steel plant in Lanarkshire and a televised debate in Edinburgh's Usher Hall 10 days ago, widely considered to have been a moral victory for the SNP.

Last week, the Scottish edition of the Sun newspaper, the second biggest largest seller in the country, with a 300,000 circulation, became the first national paper openly to back the secessionists.

Labour yesterday moved to promote its plans for a devolved Scottish parliament with legislative powers by announcing that its ruling national executive had agreed to back a system of proportional representation system of voting for the new body.

The proposal for the adoption of the alternative member system for Scotland and some form of PR for its proposed Greater London Authority was widely greeted as a breakthrough by advocates of electoral reform.

Mikhail Gorbachev, the former soviet president, makes a point to David Levy, the Israeli foreign minister

# Palestinians out in Moscow's cold

**Roger Matthews and Tony Walker** on the Middle East peace talks

MOSCOW in winter is not the most inviting place, as Palestinian delegates to a multinational forum on Middle East issues discovered this week.

Excluded from formal deliberations because of a row over their nominees, the Palestinians were faced with the galling spectacle of Israel sitting down for its first-ever meetings with several Arab states, plus China, in the capital of what was until recently their most powerful supporter.

After the euphoria in Madrid at the beginning of the peace process last October, when relatively quick progress seemed possible, the Moscow forum has reminded everyone how tough and complex the negotiations will be.

With the Palestine Liberation Organisation seeking to reassert itself after its setback in the Gulf war by resisting both international and, more particularly, Arab pressure to send acceptable nominees to Moscow, the old issue of who should represent the Palestinians again overshadowed efforts to achieve peace.

But while the Palestinians were shut out of the formal sessions on such issues as disarmament, economic development and the environment, all was not lost for them. They were even claiming something of a moral victory after Mr James Baker, the US secretary of state, had indicated that the co-sponsors might agree to broader Palestinian representation in later negotiations.

The Palestinians were allowed to take part in last October's opening, after bowing to Israeli demands that their delegation include only representatives from the occupied West Bank and Gaza Strip.

In Moscow this week, the PLO, in a blatant challenge to the ground rules agreed in Madrid, decided to make a stand by insisting on the inclusion of diaspora Palestinians in the certain knowledge that Israel and the co-sponsors would object.

The PLO, increasingly alarmed at its formal exclusion from the peace process, almost certainly calculated that whatever damage its action rendered to the multilateral round in Moscow, would not be sufficient to derail the process itself. The core of this is the bilateral negotiations on land and sovereignty between Israel and delegations representing Syria and Lebanon, plus a Jordanian-Palestinian team.

The Palestinians were at pains yesterday to distinguish between the Moscow multilateral round, attended by 26 delegations including 10 from Arab states, which they said were "organisational", and the face-to-face negotiations which were "substantive".

Mrs Hanan Ashrawi, the Palestinian spokeswoman, did not sound the least defensive when she said: "The time has come to be firm and to deal effectively with Israel."

This more challenging stance is likely to be especially welcomed in the occupied territories, where anxiety over continued Jewish settlement is becoming more acute.

The Palestinians are likely to have calculated that Israel's ability to make propaganda at their expense will be lessened by its own difficulties with the US, which is threatening to withhold $10bn in loan guarantees, unless the Israelis stop building settlements.

But while the Palestinians may have been able to cut their losses in Moscow, the event and its location carried with it painful reminders of their weakness and isolation.

Not only were the talks taking place in what had been the capital of one of the first and most consistent supporters of Mr Yassir Arafat's PLO, but, to add insult to injury, the Chinese, another of the PLO's traditional backers, were also present after establishing relations with Israel last week.

The presence of the Saudi foreign minister, Prince Saud al-Faisal, in the same room as the Israelis, must have been especially irritating for the Palestinians. Of all Arab states, the Saudis have been the PLO's most generous financial backer, but Mr Arafat's support for Iraq in the Gulf crisis led to a cut off in Saudi assistance and to a continued chill in relations.

# Blinkered views from the world's TV screens

**By Raymond Snoddy**

THE PROPHECY of Marshall McLuhan that satellite television would turn the world into a global village is still a dream, according to the first survey of the news the world watches on its television screens.

The survey analysed news broadcasts on 100 channels on November 19 – the day British hostage Terry Waite arrived home from Beirut and Eduard Shevardnadze was reappointed Soviet foreign minister.

"With few exceptions this global television news survey exposes the parochialism of news in most countries of the world," said Mr Everette Dennis, executive director of the media studies centre at Columbia University, New York. "It also debunks the persistent notion that news flows from the industrialised information societies to the Third World and not the other way around. The story here is that the news doesn't flow very far at all."

Most news was fiercely local and, at least on November 19, "the much-ballyhooed CNN was mostly an all-American product."

Asia, which was almost totally ignored by the rest of the world on that day, also isolated itself from most international news.

Only one international story was included in Tokyo Broadcasting's report. It concerned rock star Michael Jackson's new video. The only non-Japanese story NHK, the Japanese public service broadcaster, had in the main section of its news was about fighting in Timor, Indonesia.

The survey, by Inter Media, the journal of the International Institute of Communications, also showed that Latin America was just as much ignored by the rest of the world as most of Asia.

The television channels of newly liberated eastern Europe, however, were alive with regional and international news as well as their own output, and the French achieved a good balance between national and international news.

Three French services featured the fighting in Yugoslavia or Mr Waite's release as their main news item.

Television in Kuwait turned out to be the most slavishly inward-looking. Five of seven headline stories were about His Highness Sheikh Jaber al-Ahmad Al Sabah, the emir.

"This is reminiscent of Spanish television during the Franco regime or East German television under Honecker," Mr Dennis said.

Inter Media concludes that the fragmented and parochial nature of television news on November 19 suggests that newspapers and magazines are still essential to any comprehensive understanding of Planet Earth.

# Britain to lift ban on imports of gas

**By Deborah Hargreaves** in London

THE UK government is to remove its longstanding ban on gas imports. The announcement may come as early as today when Mr John Wakeham, energy secretary, is expected to give the go-ahead for two import deals in a statement to the Commons.

The decision to sanction imports will represent a major policy reversal for the British government, which has resisted moves to open the market since it vetoed a bid by British Gas to buy Norwegian gas supplies seven years ago.

It comes as the EC Commission presses ahead with plans to liberalise the Community's energy market. The plans have been supported by Britain.

However, the removal of the import ban is unlikely to make up for the supply shortfall which British Gas believes will hit the UK market by 1994. Norway has little spare capacity available for export before the mid-1990s.

Mr Wakeham is believed to be linking his approval of the import deals to the construction of a cross-Channel gas pipeline which would allow the export of UK gas to the continent. He is expected to announce a feasibility study into the £200m to £300m project soon.

Mr Wakeham's statement on imports will sanction an agreement between BP and two Norwegian energy groups, Statoil and Norsk Hydro, to form a company that will challenge British Gas in the UK's industrial gas market. The joint venture project, which will be headed by a Statoil executive, will rely on the import gas from Norway later this decade.

At the same time, Mr Wakeham is expected to give the go-ahead for a £150m deal between National Power, the British electricity generator, and Statoil, Norway's state oil and gas company, to import 2.2bn cu ft of gas a year. The 15-year pact will provide National Power with enough gas to fuel two gas-fired power stations.

Under the BP venture pact, Statoil and Norsk Hydro will buy 40 and 10 per cent respectively of BP Gas Marketing, which has been supplying industrial users for 18 months. The company supplies about 100 customers, but its expansion has been hampered by the lack of gas supplies in the UK.

Shortage fears, Page 9

# Yeltsin offers to match US arms cuts

**Continued from Page 1**

number of nuclear warheads on Trident submarines is significant since the US has jealously guarded its technological superiority in this area.

Mr Manfred Wörner, Nato secretary-general, described Mr Bush's move as "a further far-reaching step in building a more peaceful, freer and significantly safer world."

In an interview for BBC television, Mr Yeltsin extended his vision of widespread arms cuts with a call to the UK, as well as France and China, to join Russia and the US in cutting their nuclear arsenals.

Mr Bush had announced unilateral changes in the US strategic nuclear force. He said he would halt production of the troubled B-2 Stealth bomber after completing 20 aircraft, cancel the Midgetman missile, cease production of new warheads for sea-based ballistic missiles, and halt purchases of advanced cruise missiles.

The US move would scrap more than 2,000 US nuclear warheads and between 4,000 and 5,000 nuclear warheads in former Soviet republics.

# Russia urges republics

**Continued from Page 1**

appeared to be aimed at public opinion, which not only bitterly resents the government's harsh economic reforms, but complains that Russia is subsidising other republics with cheap oil while their neighbours plot to wreck the rouble with separate currencies.

The combative announcement followed claims by Lithuania on Tuesday that Russia had cut off oil supplies to the Baltic republic. Although he partially denied the claim, Mr Mashits suggested that Russia had reason to take such action. He accused Lithuanians of attempting to take over Soviet army property while demanding the speedy evacuation of homeless troops.

## WORLDWIDE WEATHER

| | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ajaccio | S | 13 | 55 | Berlin | Dr | 1 | 34 | Caracas | C | 26 | 79 | Faro | F | 15 | 59 | Islamabad | R | 13 | 55 |
| Algiers | S | 17 | 63 | Biarritz | F | 5 | 41 | Casablanca | F | 18 | 64 | Florence | S | 11 | 52 | Istanbul | F | 4 | 39 |
| Amsterdam | S | 3 | 37 | Bombay | S | 30 | 86 | Chicago | C | -2 | 28 | Frankfurt | S | 3 | 37 | Jakarta | R | 31 | 88 |
| Athens | C | 7 | 45 | Bordeaux | S | 3 | 37 | Cologne | S | 4 | 39 | Geneva | C | 0 | 32 | Jersey | F | 1 | 34 |
| Bahrain | S | 13 | 55 | Boulogne | S | 4 | 39 | Copenhagen | C | 4 | 39 | Gibraltar | C | 15 | 59 | Johannesburg | F | 29 | 84 |
| Bangkok | C | 33 | 91 | Brussels | S | 1 | 34 | Corfu | S | 12 | 54 | Glasgow | Fg | 0 | 32 | Lima | F | 28 | 82 |
| Barcelona | F | 12 | 54 | Budapest | S | 4 | 39 | Dallas | F | 7 | 45 | Helsinki | S | 3 | 37 | Lisbon | S | 12 | 54 |
| Beirut | F | 12 | 34 | Buenos Aires | F | 32 | 90 | Dublin | C | 6 | 43 | Hong Kong | F | 21 | 70 | London | S | 7 | 45 |
| Belfast | C | 4 | 39 | Cairo | F | 18 | 64 | Dubrovnik | | – | – | Innsbruck | S | -1 | 30 | Los Angeles | S | 12 | 54 |
| Belgrade | C | -2 | 28 | Cape Town | S | 24 | 75 | Edinburgh | C | 1 | 34 | Inverness | Dr | 3 | 37 | Luxembourg | S | 5 | 41 |

| | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F | | | °C | °F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Madeira | C | 17 | 63 | Milan | S | 3 | 37 | Nicosia | F | 12 | 54 | Salzburg | S | 3 | 37 | Tenerife | F | 19 | 66 |
| Madrid | S | 8 | 46 | Montreal | C | -6 | 21 | Oporto | S | 13 | 55 | San Francisco | S | 8 | 46 | Tokyo | S | 15 | 59 |
| Majorca | F | 14 | 57 | Moscow | Sn | 0 | 32 | Oslo | F | 0 | 32 | Seoul | C | 4 | 39 | Toronto | C | -1 | 30 |
| Malaga | F | 16 | 61 | Munich | S | 0 | 32 | Paris | S | 2 | 36 | Singapore | F | 29 | 84 | Tunis | R | 12 | 54 |
| Malta | F | 13 | 55 | Nairobi | F | 28 | 82 | Peking | S | 1 | 34 | Stockholm | F | 7 | 45 | Valencia | F | 11 | 52 |
| Manchester | S | 3 | 37 | Naples | S | 11 | 52 | Prague | S | 4 | 39 | Strasbourg | S | 3 | 37 | Venice | S | 10 | 50 |
| Manila | F | 31 | 88 | Nassau | C | 26 | 79 | Reykjavik | Dr | 8 | 46 | Sydney | | – | – | Vienna | S | 5 | 41 |
| Melbourne | | – | – | New Delhi | F | 19 | 66 | Rhodes | S | 14 | 57 | Taipei | F | 25 | 77 | Warsaw | C | 0 | 32 |
| Mexico City | C | 17 | 63 | New York | S | -1 | 30 | Rio de Janeiro | F | 35 | 95 | Tangier | S | 15 | 59 | Washington | S | -2 | 28 |
| Miami | F | 22 | 72 | Nice | S | 15 | 59 | Rome | S | 12 | 54 | Tel Aviv | S | 18 | 64 | Zurich | C | -2 | 28 |

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

## THE LEX COLUMN

# A budget for the ballot box

Since it is now clear that UK economic recovery will come too late to help the government win the election, the budget has assumed singular political importance. The art will be to give enough away in bribes to the voters without destroying the government's reputation for fiscal rectitude. The City will surely allow the chancellor some leeway if the result looks a winner, though it will also be doubly vindictive if the effort is unconvincing.

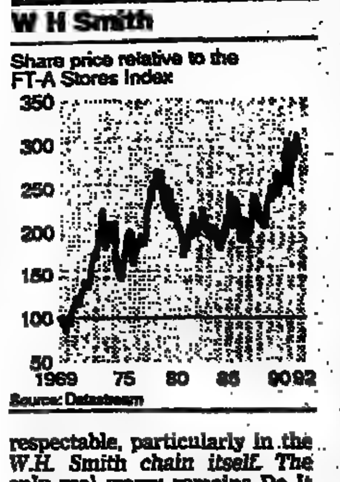
As it happens, the weak economy bestows a cloak of respectability on further fiscal stimulation, especially given the exchange rate constraint on monetary policy. But the room for manoeuvre is limited by the government's commitment to balancing the budget over the cycle. As the Institute for Fiscal Studies points out, growth must already average 3 per cent just to balance the public sector borrowing requirement by the end of the next parliament, let alone finance a cut in the standard rate to 20 per cent.

The political imperative is thus for a budget which uses its limited resources to make a Labour vote even more expensive for the relatively affluent voters of marginal seats in the south-east. A clear conclusion – though one which the IFS is reluctant to draw – is that a cut in the standard rate would be of greater electoral advantage than raising tax thresholds, because the benefit is tilted more towards the top 30 per cent of wage earners. This is not the only case where the more electorally beguiling options also make more dubious fiscal policy. It will be interesting to see where Mr Lamont's choice falls.

**FT-SE Index: 2,546.5 (−5.5)**

**W H Smith**

Share price relative to the FT-A Stores Index




Source: Datastream

### W.H. Smith

Even by their own long-term standards, shares in W.H. Smith have been unusually strong of late. Since last May's £148m rights issue, they have beaten the market by 30 per cent and are at their highest ever against the retailing sector. Judging by yesterday's interim results and increased dividend, the market has been right to put a premium on the group's defensive characteristics. The question is whether Smith will maintain its rating once the economy picks up.

Granted, the interim figures depended heavily on the rights issue cash, which brought down the interest charge to less than £3m against five times that in the same period last year. The underlying trading performance was still respectable, particularly in the W.H. Smith chain itself. The only real worry remains Do It All, which may complete its integration just in time for a price war among the big chains. With recovery in the housing market still a distant prospect, it may be left to the group's other specialist retail brands to make the running. Investors might deduce that although Smith is as well positioned to prosper as any of its high street rivals, the shares look fully valued.

### Intangibles

The issue of goodwill and brands in UK balance sheets is starting to rumble again. Today, the new Accounting Standards Board has its first session on the topic. Earlier this week, a detailed study backed by the UK's leading finance directors pressed for the valuation of intangibles. The battery of techniques is becoming ever more complex and more lucrative for its practitioners. In terms of basic principle, it is all built on sand.

Brand valuation is open to at least two fundamental objections. First, a brand name has different values in different hands. The Savoy name would be worth rather more to Mr Rocco Forte than it would be attached to a boarding house in Blackpool. Second, all brand valuations are based on applying a multiple to the brand's cash flow or earnings. As Mr David Damant of MAP Securities argues, international accounting theory now says that accounts are there to allow the user to judge future cash flows. If assets are valued on the basis of future cash flows in the first place, the process becomes circular.

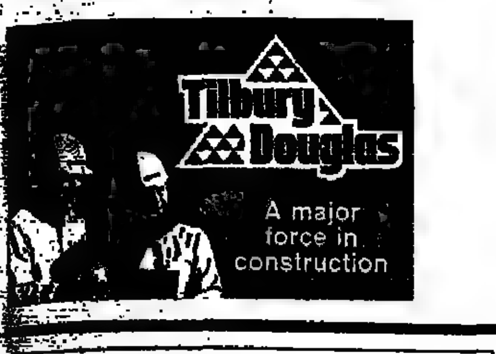
Much of the stimulus for the debate came from the Rowntree takeover, which was taken to show that Rowntree's brands constituted hidden value. A more up-to-date example might be the now worthless Maxwell Communication, whose latest accounts showed net assets of £1.3bn thanks to intangibles valued at £2.5bn. It might be objected that Mr Robert Maxwell's accounting practices were scarcely typical: but it is just such cases which call for conservative accounting standards.

In other countries besides the UK, the rationale of the balance sheet has become a matter of deep confusion. In the UK, there is a pragmatic solution: that the company making an acquisition should simply record the purchase as an asset at full cost. The tangible assets would then be depreciated and the balance checked annually for diminution of value. This would avoid the rooted objection of British companies to amortising goodwill. In that respect, it would go against international practice and perhaps the EC's Fourth Directive on company law. If that could somehow be addressed, the whole nonsense about brands could go out of the window.

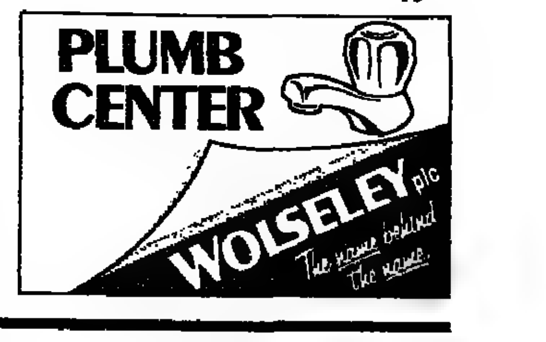
### UK construction

An election has to be in the offing when a government minister needs to exclude commercial property and make five-monthly comparisons to derive any satisfaction from the latest construction figures. That said, there is plausible evidence of a modest pick-up in construction orders from the private industrial sector between July and November last year. That is certainly consistent with the idea that companies will not wish to be left with outdated plant and equipment when a strong recovery finally materialises.

Unfortunately, these tidings bring little comfort for investors in quoted contractors. As the Building Employers Confederation made clear over the weekend, many of its members are undertaking work on zero or negative margins as they compete fiercely for the dwindling volume of new commercial work. Returns on the civil side are more encouraging for the moment, but this will not necessarily last if everyone dives into the same market place. Any increase in orders is not to be sniffed at. But just as increased demand in the mortgage market will be slow to feed through into bigger profits for the housebuilders, so the contractors will have to wait awhile for better margins.




FINANCIAL TIMES
# COMPANIES & MARKETS






Thursday January 30 1992

## INSIDE

### Absa and Bankorp shake up SA banking

The decision by Absa and Bankorp to merge forming a giant South African bank with assets of over R80bn ($28.7bn) concludes an important shake-out in the country's banking sector, whose ramifications will affect the entire sector and perhaps beyond. Page 18

### ANZ seeks A$780m

Australia and New Zealand Banking Group (ANZ) yesterday announced a one-for-five rights issue seeking almost A$780m (US$586.4m). It is the latest in a series of leading Australian banks which have topped up their equity bases in this way. The issue follows a A$600m preference share issue by ANZ in May last year, and brings the amount of major bank equity raised in Australia in the past year to more than A$4bn. Bruce Jacques reports. Page 18

### An injection of good breeding

A five-year $15m plan to preserve the ancestral gene pool of domestic animals in the developing world is being launched by the Food and Agriculture Organisation of the United Nations. It will use DNA technology to determine genetic characteristics and improve breeds. Page 22

### Allied Textiles edges lower

Annual pre-tax profits at Allied Textiles fell slightly from £13.69m ($24.61m) to £13.16m reflecting falling property prices which last year prompted the company to suspend property sales. The contribution from textiles activities, however, rose to £8.5m from £8.3m, despite a fall in wool values. Page 20

### Manila shakes off disasters

The Philippine stock exchange was southeast Asia's best performer last year and analysts believe it will rise further in spite of uncertainty about the outcome of the May elections. Yesterday the Manila composite index was 1,242.04 – a big improvement on January last year when a failed coup attempt in 1989, an earthquake, a typhoon and a volcanic eruption, had pushed the Manila composite index to under 600. Page 34

### Tight line on tuna


A San Francisco court ruling this week that calls for strict enforcement of restrictions on tuna imports puts the US on an apparent collision course with Japan and the European Community over the conflicting priorities of trade and the environment. Page 22

### Market Statistics



### Chief price changes yesterday

| | | | |
|---|---|---|---|
| **FRANKFURT (DM)** | | | |
| **Rises** | | | |
| Hafitz | 376 | + | 8 |
| **Falls** | | | |
| AG Ind&Verk | 866 | − | 34 |
| Holzmann | 1126 | − | 19 |
| Porsche | 585 | − | 16 |
| Volkswagen | 328 | − | 5.5 |
| **NEW YORK ($)** | | | |
| **Rises** | | | |
| Black & Decker | 23 | + | 1⅛ |
| Du Pont | 49⅞ | + | 1⅛ |
| Philip Morris | 78⅛ | + | 1⅞ |
| Russell Corp | 38⅞ | + | 1⅝ |
| **Falls** | | | |
| Amcep | 5 | − | ⅝ |
| Bethlehem Steel | 14½ | − | 1⅛ |
| **PARIS (FFr)** | | | |
| **Rises** | | | |
| Fives Lille | 520 | + | 25 |
| BTM-Entrepose | 408 | + | 29 |
| Pernod Ricard | 1485 | + | 40 |
| Printemps | 924 | + | 34 |
| **Falls** | | | |
| Lafarge Coppee | 323 | − | 7.6 |
| Paribas | 355 | − | 12.5 |
| **TOKYO (Yen)** | | | |
| **Rises** | | | |
| Japan Sec Fin | 1706 | + | 130 |
| Misawa Homes | 640 | + | 46 |
| Tsugami | 638 | + | 49 |
| **Falls** | | | |
| Fujita Tourist | 1760 | − | 120 |
| Kanto Spec Stl | 641 | − | 35 |
| Nichiei Fin | 590 | − | 50 |

New York prices at 12.30.

| | | | |
|---|---|---|---|
| **LONDON (Pence)** | | | |
| **Rises** | | | |
| Adscene | 90 | + | 7 |
| Airbreak Leis | 61 | + | 4½ |
| BM | 416 | + | 22 |
| Barkeley Ind | 20 | + | 3 |
| Clyde Blowers | 285 | + | 63 |
| Fisons | 382 | + | 13 |
| Medeva | 284 | + | 14 |
| Trafalgar Hse | 137 | + | 6 |
| Welsh Indl Inv | 78 | + | 7 |
| **Falls** | | | |
| Automated Sec | 133 | − | 8 |
| BET | 152 | − | 7 |
| Carlton Comms | 545 | − | 20 |
| Dowty | 135 | − | 7½ |
| Gardiner | 42 | − | 12 |
| Harrisons Cros | 111 | − | 8 |
| Jacobs (J I) | 24 | − | 4 |
| Lonrho | 115½ | − | 8 |
| Lucas Inds | 112 | − | 6 |
| Scantronic | 45 | − | 5 |

# Bethlehem Steel to cut 6,500 jobs

By Martin Dickson in New York

BETHLEHEM STEEL, the second largest steel producer in the US, yesterday announced a restructuring to stem its losses, including a 24.5 per cent cut in its labour force, the sale or closure of several businesses and the omission of its quarterly 10 cent-a-share dividend.

The package means a $575m charge against fourth-quarter earnings, producing a net loss of $638m. The moves will cut jobs by 6,500 to around 20,000 over the next two years.

Bethlehem, which two months ago abandoned plans for a joint structural steel venture with British Steel, has already experienced years of restructuring, and after pulling back from near bankruptcy in 1986 it become one of the US's most successful integrated steel manufacturers.

However, it has long acknowledged that it requires several more years of reshaping to be fully profitable, and the need for action has been intensified by the current US recession.

Weak demand for steel products has hit all the integrated companies hard, as has intensifying competition from low-cost mini-mills, which have been taking an increasing share of the market for less sophisticated products.

Yesterday's plan includes selling as a whole or in parts Bethlehem's division making bar, rod and wire – a market now dominated by mini-mills and low priced imports.

Bethlehem had been discussing a possible modernisation of the loss-making division, which employs 2,600, with the United Steelworkers' union (USW) for more than a year. But the two sides failed to agree on a new labour pact and Bethlehem said its deteriorating finances now made modernisation out of the question.

It will also sell or close its loss-making railway track switch plant and put up for auction its coke-making operations at Lackawanna, in New York state, which it said was complementary to its recently announced plan to sell most of its coal operations.

Yesterday Bethlehem left open the fate of the structural business, saying it was still considering alternatives to the British Steel plans and would need labour cost concessions if modernisation was to take place.

Bethlehem's $638m loss for the quarter, which worked through at $8.47 a share, compared with a loss of $515.8m, or $6.91 a share, in the same period of last year, when it took a $550m charge in connection with the British Steel venture. Sales dipped from $1.2bn to $1.03bn. For the full year it lost $767m, against $464m.

**Kevin Done** on VW's plan to control UK importing

# Carmakers corner the wholesale sector

Operating a national franchise for one of the world's leading carmakers can be a lucrative business, but the openings are closing fast.

Volkswagen's determination to take eventual control of its UK VW/Audi importer/distributor operations from Lonrho is part of an established pattern, as car manufacturers seek to extend their influence over key parts of their wholesale operations.

In the UK, Toyota and Nissan have recently taken expensive steps to acquire control of their importer/distributor operations from independent franchisees.

Fiat has taken control of the Alfa Romeo and Lancia operations in the UK.

Such moves are nothing new to Lonrho, either. SEAT, the Spanish subsidiary of Germany's Volkswagen group, took over its UK distributorship SEAT Concessionaires (UK) from Lonrho in early 1990. This week Lonrho also said it will sell to MAN Nutzfahrzeuge of Germany, the UK MAN distribution activities.

Faced with increasingly fierce global competition most car producers have decided this sensitive part of their operations is too important to leave to independent operators in main markets.

In the UK, apart from VW and Lonrho, there is only one exception, namely Volvo Concessionaires, a subsidiary of Lex Service, which holds the Volvo franchise in the UK and has built it into one of the most important markets worldwide for the Swedish carmaker.

For Volkswagen, the priorities of its commercial strategy in large volume markets are clear.

"Towards the end of the 1980s we formulated the strategy that in the car producing countries of the world the manufacturer must also be in the wholesale business. That was and is our strategy," said Mr Hans-Jörg Hungerland, sales director for the VW and Audi marques worldwide, in an interview late last year.

"You must be in control of the big markets. In Europe the leading five markets [Germany, Italy, France, the UK and Spain] account for 83 per cent of the total volume."

VW already controls its wholesale operations directly in Germany, France, Italy and Spain. The Italian importer/distributor, Autogerma, was fully acquired in mid-1985, while the Spanish operations were established under VW's direct control in the wake of its progressive takeover of SEAT, the Spanish carmaker, in the second half of the 1980s.

Volkswagen, Europe's leading carmaker, has evolved different strategies for the big volume markets in Europe on the one hand, and the small and medium-sized markets on the other.

In smaller markets, such as Belgium, the Netherlands, Switzerland and Austria, VW is happy to retain independent importers and distributors. "We do not want to engage ourselves there in wholesale or retail operations," said Mr Hungerland.

But VW believes in a different strategy in the main car producing countries. "The pressures in the big five countries will grow the fastest," said Mr Hungerland. "There is a different climate that leads to different pressures in terms of production and pricing."

Nowhere is this more true than in the UK, which is in the frontline of the Japanese assault in Europe. The first three Japanese car plants in Europe are all being developed in the UK, where the three leading Japanese carmakers Toyota, Nissan and Honda will have a combined assembly capacity for more than 600,000 cars a year by the mid-1990s.

Both Toyota and Nissan have decided that with such big strategic investments in the UK they must also control the wholesale operations.

Most importantly this offers control of:

- overall sales and marketing strategy;
- the extent of financial incentives to be used in sales support;
- the relative emphasis on retail and fleet sales;
- selection, training and co-ordination of the dealer network; and
- advertising, image and market positioning.

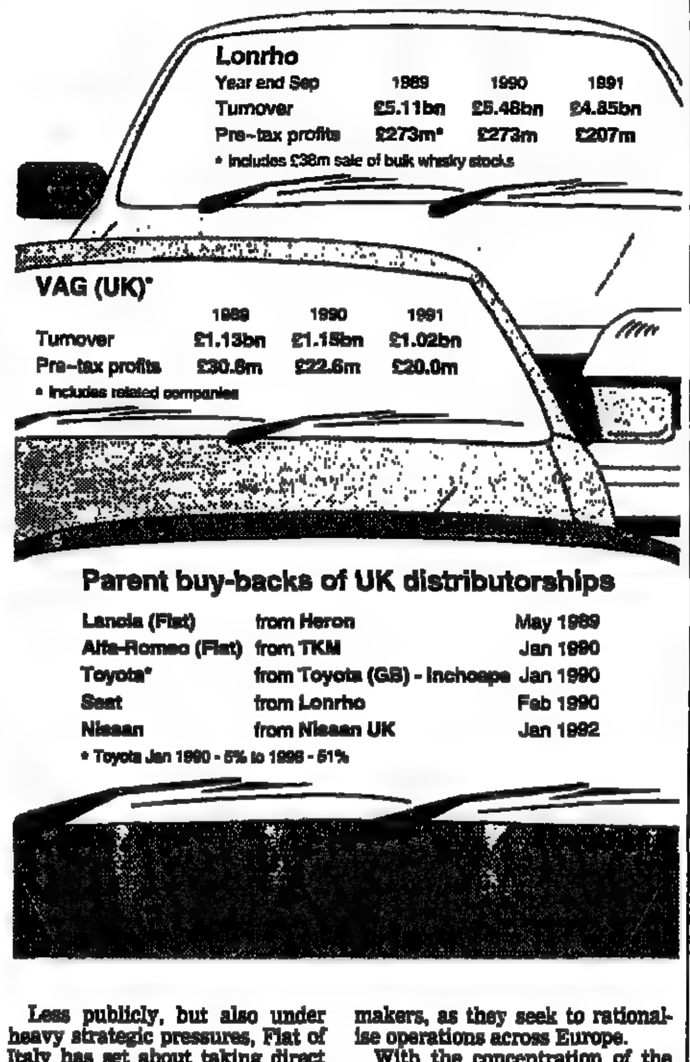
The means to the end can be very different, but the end remains the same. VW and Lonrho insisted yesterday that the details of their contract relationship were confidential.

Toyota chose to take control amicably. In early 1990 the group reached agreement with Inchcape, the international motor distribution and motor retailing, services and marketing group, to eventually take a 51 per cent stake in Toyota (GB), its British distributor and an Inchcape subsidiary for £61m ($110m).

It currently holds a 5 per cent stake in Toyota (GB) and this will rise to 51 per cent by 1998. At the same time it awarded Toyota (GB) an 18-year exclusive distribution contract for Toyota vehicles.

Nissan was forced to take a different route to the same vital goal. Unable to negotiate a friendly takeover of Nissan UK, the privately-owned importer/distributor of Nissan vehicles in the UK controlled by Mr Octav Botnar, Nissan took drastic action at the end of 1990.

It terminated the NUK contract with 12 months' notice, landed in a protracted legal battle and took on the onerous task of setting up an alternative dealer network within 12 months.



**Lonrho**

| Year end Sep | 1989 | 1990 | 1991 |
|---|---|---|---|
| Turnover | £5.11bn | £5.48bn | £4.85bn |
| Pre-tax profits | £273m* | £273m | £207m |

* Includes £38m sale of bulk whisky stocks

**VAG (UK)***

| | 1989 | 1990 | 1991 |
|---|---|---|---|
| Turnover | £1.13bn | £1.15bn | £1.02bn |
| Pre-tax profits | £30.8m | £22.6m | £20.0m |

* Includes related companies

**Parent buy-backs of UK distributorships**

| | | |
|---|---|---|
| Lancia (Fiat) | from Heron | May 1989 |
| Alfa-Romeo (Fiat) | from TKM | Jan 1990 |
| Toyota* | from Toyota (GB) - Inchcape | Jan 1990 |
| Seat | from Lonrho | Feb 1990 |
| Nissan | from Nissan UK | Jan 1992 |

* Toyota Jan 1990 - 5% to 1998 - 51%

Less publicly, but also under heavy strategic pressures, Fiat of Italy has set about taking direct control of its franchises in the UK. It bought out the Alfa Romeo franchise from TKM in January 1990 and took over the Lancia franchise from Heron Corporation in May 1989.

It has appointed new senior executives and has announced plans to invest around £100m over the next three years in order to strengthen the ailing UK dealer networks.

In the era of the single European market from 1993 direct control of key national wholesale operations is vital for the big carmakers, as they seek to rationalise operations across Europe.

With the concentration of the industry the Volkswagen group now has four marques in Europe, VW, Audi, SEAT and Skoda.

It will take time but Mr Hungerland is determined gradually to wring more synergies out of the wholesale operations of the four marques across Europe.

At a retail dealer level Skoda and SEAT will be kept entirely separate from VW/Audi, but at the wholesale level he said he expected large savings to be possible through shared facilities – such as parts depots – and shared book-keeping.

Such synergies demand a unified control.

# Charges push Du Pont into $240m fourth-quarter loss

By Alan Friedman in New York

DU PONT, the biggest US chemicals group, suffered a $240m loss in the fourth quarter of 1991 following $469.5m in special charges associated with cost reductions, business restructuring and the recall of a fungicide product.

The loss, which compares with a $468m net profit in the last quarter of 1990, would have been larger had it not been for a $391m extraordinary credit resulting from the sale of assets, including an interest in Du Pont's coal business.

The coal business gain, together with other asset disposals, was insufficient to offset net charges of $328.6m for the whole of 1991. Net income for 1991 fell 39.3 per cent to $1.4bn.

When the non-recurring gains and losses are stripped out, Du Pont's 1991 earnings per share of $2.08, against $3.40 in 1990, were 43 per cent lower year-on-year.

Du Pont's total sales fell 11.7 per cent to $9.77bn in the fourth quarter of 1991, and by 3.4 per cent to $38.7bn for the full year.

Mr Edgar Woolard, Du Pont chairman, said the operating results were affected by sluggish economies worldwide, which caused weak demand and price pressures for chemicals, polymers and products for the printing and electronic industries.

On an after-tax basis, all Du Pont divisions experienced reduced 1991 operating earnings except for the coal business, which saw an asset disposal.

With extraordinary items stripped out of calculations, the fibres saw earnings rise 28 per cent from higher demand for apparel fibres and reduced costs. On this basis earnings from chemicals were 35 per cent lower, while the polymers division suffered a 42 per cent drop in income.

Du Pont's diversified business division recorded 60 per cent lower 1991 earnings, reflecting higher costs in agricultural products and lower sales volumes and margins in most of the electronics and imaging systems businesses. Petroleum earnings were down 11 per cent in 1991, reflecting lower crude prices.

Mr Woolard said he believed the benefits from cost reduction programmes would put Du Pont in a position to gain from a resumption of growth in world markets.

On Wall Street, Du Pont's share price rose $¾ to $49¾.

# Court rules on Maxwell silence

By Robert Rice, Legal Correspondent, in London

MR KEVIN MAXWELL's legal battle to remain silent about the whereabouts of £450m ($812.3m) missing from the Maxwell pension funds appeared to be over last night after the UK Appeal Court ruled he must tell investigators all he knows about the funds.

The court said he could not rely on the privilege against self-incrimination as justification for refusing to answer questions put to him by the provisional liquidator of Bishopsgate Investment Management, which managed Maxwell pension funds.

It was clear that parliament had by implication intended the privilege should not be available to people facing questions under the 1986 act, the court said.

Mr Maxwell had claimed the right to remain silent because of the risk he might incriminate himself in the face of possible criminal charges.

But in a separate appeal in a private action brought by Mirror Group Newspapers, the court said Mr Maxwell did not have to comply with a court order made last December requiring him to disclose information about £170m missing from MGN. As parliament had had not removed the privilege against self-incrimination in such actions, Mr Maxwell could rely on it to avoid answering questions which might incriminate him, the court said.

The court refused both Mr Maxwell and MGN leave to appeal to the House of Lords.

The appeal judges also refused to suspend the application of a High Court order made last year requiring him to answer the provisional liquidator's questions, pending the outcome of any law lords' hearing. Afterwards Mr Maxwell, who also faces questioning from a House of Commons select committee on the same matter, refused to comment.

Mr Neil Cooper, provisional liquidator of BIM, said he was very pleased but Mr Neil Fagan, MGN's solicitor, said it would not be making any rushed decision about approaching the law lords for leave to appeal.

It also emerged yesterday that Mr Maxwell's legal battles are being at least partly funded by a mystery benefactor. The existence of the benefactor emerged in an affidavit of means which Mr Maxwell had been ordered to lodge with the court to explain how he was paying for his legal expenses.

# Perrier fires salvo in hostile bid battle

By Alice Rawsthorn in Paris

PERRIER, France's leading mineral water company, yesterday fired a salvo in its defence against the FFr13.42bn ($2.48bn) hostile bid from Nestlé and Banque Indosuez.

Mr Jacques Vincent, president of Perrier and Exor, the French property group that controls 35 per cent of the mineral water company and is itself the subject of a FFr5.6bn friendly bid from Italy's Agnelli family, said Perrier was determined to "say no to this strange adventure".

He was particularly critical of Indosuez, the banking subsidiary of France's Suez Group which owns 10 per cent of Exor. Mr Vincent, who is a board member of Suez, said he was "confused and even a little bitter" about its participation in the bid given its recent policy of rationalising its industrial interests.

The fight for Perrier, which began 10 days ago when Nestlé, the Swiss food giant, and Indosuez unveiled their bid, threatens to involve some of the leading figures in the European industrial establishment and French financial circles.

Perrier's defence against Nestlé is based on the claim that its mineral water interests should remain intact. Nestlé has already agreed to sell Volvic, one of Perrier's waters, to BSN, the French food group which, until this bid, had been regarded as an ally of the Agnellis.

Mr Vincent described the prospect of selling Volvic as "losing a wing". Perrier has taken legal action to try to nullify the agreement between Nestlé and BSN by filing a complaint with the Conseil de la Concurrence, the French competition authority. If Nestlé's plan to sell Volvic to BSN was blocked, its bid might face monopoly problems.

Nestlé has mounted a legal case of its own against the recent FFr1.5bn sale of 13.8 per cent of Perrier to Saint Louis, the French food and packaging group. Mr Vincent yesterday defended the decision to introduce Saint Louis as an investor saying it formed part of Perrier's diversification strategy. Mr Bernard Dumon, president of Saint Louis, said his company had agreed to take an initial 13.8 per cent of Perrier with the aim of raising its holding to 20 per cent.

Société Générale, the French bank, pledged its support to Perrier, of which it owns 0.5 per cent. Mr Marc Vienot, president, said the bank believed Perrier should remain independent and criticised the "low price" of Nestlé's offer.

# WH Smith ahead 44% as interest charges decline

By Michiyo Nakamoto in London

A SHARP decline in interest charges helped W. H. Smith, the UK book and music retailer, lift pre-tax profits by 44 per cent to £50.1m ($90.68m) from £34.9m in the half-year to November 30.

The improvement came in spite of weakness in the music market and a substantial decline in the contribution from Do It All, the group's do-it-yourself joint venture with Boots the chemists, which suffered from intense price competition.

Interest charged fell to £2.6m from £15.6m as borrowings were brought down with the help of a rights issue and the disposal of the TV and travel interests.

The charge was likely to be higher in the second half because of acquisitions the group expected to make, mainly in the US.

On higher earnings of 13.7p against 11.1p, the interim dividend is raised to 4.3p from 4p.

Turnover was up to £1bn from £936m, with an 11 per cent increase in retailing sales offsetting a 9 per cent fall in the DIY operations.

However, retailing did not fare as well in terms of trading profits which fell 4.5 per cent to £37.5m from £39.3m mainly because of the slump in the recorded music business.

Sir Malcolm Field, group managing director, blamed the relatively new CD market, the recession affecting young consumers and a perception among consumers that CD prices were still too high.

The Do It All venture suffered from difficulties in integrating the products and systems of the constituent businesses, as well as strong price cutting by competitors. Sales dropped to £97.9m from £107.9m and W. H. Smith's share of profits from the venture fell to £100,000 from £3.1m.

"The sector has been severely depressed and there has been no improvement in the housing market," Sir Malcolm said. Efforts had been made to improve the product range and Do It All expected to be number two in the market.

W. H. Smith's distribution business, including news and magazine wholesaling operations, and office supplies business, increased sales and trading profits.

In the US, which contributed about 5 per cent of turnover at £59m against £39.5m, trading profits rose 27 per cent to £1.9m from £1.5m.

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# Danish financial group to cut 400 staff

By Hilary Barnes in Copenhagen

TOPDANMARK, the Danish insurance and banking group, is to dismiss about 400 employees, some 13 per cent of the staff, as part of a programme to streamline the organisation and improve earnings. Nine branches of the group's bank, Aktivbanken, will be closed this year, the group said.

Topdanmark's 1991 results are expected to be negative following an increase by DKr200m ($161,000) in loss provisions for the bank following an increase in provisions policy by the Danish supervisory authority. Loss provisions by the bank in 1990 were DKr169m and the group profit was DKr52m.

Earlier, the group predicted profits of DKr50m to DKr75m for 1991, by it said yesterday that "results will be reduced by an amount equal to the loss incurred by Aktivbanken".

Topdanmark is negotiating an alliance with Sweden's Wasa, AVCB of the Netherlands, and the UK's Friends Provident. The Danish group said that its streamlining programme will mean fewer levels of management and less bureaucracy.

# Fiat sticks to its investment guns

## Haig Simonian on the car-maker's efforts to maintain confidence

SOME manufacturers would react to a severe decline in demand and severe price competition by axing spending. But Fiat, Italy's biggest private-sector company, is sticking to its ambitious long-term investment programme, despite the damage to short-term finances from tumbling profits.

Even skilful window dressing failed to make Fiat's preliminary results, disclosed in a letter to shareholders this week, encouraging reading. Falling sales, high costs and growing competition meant Fiat's core business of producing motor vehicles was barely profitable last year.

Increased revenues from non-industrial activities such as financial services and retailing softened the blow. But with Mr Giovanni Agnelli, Fiat's chairman, warning that no upturn was in sight, the company will have to depend on one-off capital gains and extraordinary items to tide it over.

Operating profits fell to around L636bn ($530m) last year, or about L450bn after tax. That is frighteningly little for a group with sales of L57,828bn. In 1990, operating earnings for Fiat's core industrial activities alone amounted to L2,103bn. But in 1991, the decision to add operating earnings for highly profitable non-core businesses was just one of the steps the group had to take to produce an acceptable figure.

Giovanni Agnelli: warned that no upturn was in sight

The result is that Fiat's industrial activities, principally cars and trucks, which account for more than 61 per cent of turnover, were barely profitable last year.

Fiat stressed its car business remained in the black, despite selling 65,300 fewer vehicles and seeing its domestic market share tumble to 47 per cent from 53 per cent in 1990. However, it admitted that recent purchases of loss-making activities, such as the Ford New Holland farm equipment business and the Enasa trucks group in Spain, had cut into earnings.

Moreover, careful reading of the figures suggests the situation worsened in the second half. On the cars side, the group's domestic market share edged down during the year, dropping to 46.40 per cent in November and just 45.13 per cent the following month.

Matters look set to get worse before they get better. A number of importers, notably Ford, have targeted the Italian market, which remained fairly buoyant last year, to make up for falling demand elsewhere.

Others, like Volkswagen, were held back by model changes. With growth in its home market slowing, VW may be in a position to give customers in Italy, its biggest export market, the cars they have been crying out for.

Mr Agnelli admitted that European demand for cars showed little sign of an upturn this year. Nor will Fiat have another windfall in Germany, where group sales rose by 28 per cent last year. And although it is now committed to an ambitious new model programme, neither the new Cinquecento minicar nor the mid-sized Alfa 155 saloon are the sort of mass market models to produce a sudden change in fortunes.

The group is in the throes of a huge L47,000bn investment programme over the next five years. Around L38,000bn will be devoted to the cars side, on which a total of L40,000bn is to be spent over the next decade.

But at a time of sharply declining cash flow, such ambitious spending is already taking its toll on Fiat's balance sheet. Fiat's financial position swung to a deficit of L385bn last year compared with a positive figure of L376bn at end 1990 – the first time the company's financial position was in the red in a decade. The likelihood of a continuing fall in cash flow, which plunged to L4,604bn from L6,065 in 1990, means debt is bound to rise.

Fiat will increasingly depend on one-off gains and asset sales to prop up its earnings until the benefits of its investment programme come on stream.

Selling the Telettra telecommunications operation and other disposals provided a L900bn extraordinary boost to earnings last year. As a result, net profits for 1991 will fall to around L1,100bn – not as bad as some analysts expected.

That is still around one-third below the L1,613 made in 1990, but a great deal more than would have been the case but for the disposals. The task for Fiat now is to pull enough extraordinary gains out of its hat to retain shareholders' confidence until its long-term investments start to pay off.

# Credit losses hit Swedish banks

By Robert Taylor in Stockholm

TWO of Sweden's leading commercial banks revealed yesterday that mounting credit losses had made a severe impact on their financial results for 1991.

Svenska Handelsbanken said net operating income was "somewhat below" SKr3bn ($516m) last year. This contrasts with the SKr4.6bn profit it made in 1990. Handelsbanken will publish complete financial results on February 18.

The bank said it expected loan losses of "slightly over 1 per cent of total lending". Handelsbanken has more than doubled its reserves for credit losses since last autumn to SKr3.5bn.

Handelsbanken blamed the negative trend in loan losses on the finance company Gamlestaden, rescued from collapse by a Swedish bank consortium last autumn. It has a negative equity of SKr2.2bn and Handelsbanken estimates its share of that figure is SKr455m.

Skandinaviska Enskilda Banken, Sweden's largest commercial bank, also reported a deterioration in financial performance with profits falling by 27 per cent to SKr2.4bn for 1991. The bank blamed the decline on escalating credit losses, including last week's further SKr352m loss from its involvement in the rescue of Gamlestaden.

The bank said the group's results would have grown favourably during 1991 if its credit losses were excluded from its figures. The estimated SKr415m loss resulting from the sale of most of a 28.2 per cent share option in Skandia, Sweden's leading insurance company, is to be taken against the accounts.

# Bang & Olufsen stems losses

By Hilary Barnes

BANG & Olufsen, the Danish television and audio equipment maker, staunched its losses in the first half to November 30.

The group reported a first half profit of DKr2m ($322,000) compared with a loss of DKr45m in the first half of last year and a full-year loss of DKr145m. Sales were up 10 per cent to DKr1.16bn from DKr1.05bn.

The result after depreciation was turned from a DKr8m loss to a profit of DKr24m and net financial costs were cut from DKr42m to DKr22m. There was a management reorganisation last year, when Mr Anders Knutsen took over as managing director.

# Savings movement in Norway criticises banks

By Karen Fossli in Oslo

NORWAY'S Savings Banks' Association yesterday sharply criticised the country's top three commercial banks, alleging that they adjusted credit losses upwards to qualify for increases in state support.

The association also said the banks were under-pricing loans to municipalities in order to boost market share.

Last year state-backed support to the country's ailing banking system reached NKr16bn ($2.54bn).

Christiania Bank, the second biggest bank, and Fokus Bank, the third biggest, were taken over by the state and de-listed from the Oslo bourse, while Den norske Bank, the biggest commercial bank, received a massive state bail-out to secure its survival.

Mr Einar Forsbakk, managing director of the Savings Banks' Association, accused the commercial banks of bidding so low for loans that it is virtually impossible to earn money on them. He claimed that the three biggest commercial banks held so small interest rate margins on loans to municipalities that they must be characterised as under-pricing.

"We have seen several examples of under-pricing (on loans) to municipalities where the loans will contribute to a negative result," he charged.

# Ambroveneto approves plan to take stake in ISA

By Haig Simonian in Milan

BANCO Ambrosiano Veneto (Ambroveneto), Italy's biggest private-sector financial institution, has approved plans to buy a minority stake in ISA, the holding company which controls Banca di Trento e Bolzano, a large north Italian regional bank.

The purchase, subject to regulatory approval, marks another step in Ambroveneto's expansion after last year's acquisition of Citibank Italia and 50 per cent of Caboto, a Milan securities trading firm.

The 20 per cent stake in ISA was sold by Edizione Holding, the holding company of the Benetton family who have been divesting their interests in financial services to concentrate on their clothing and sports goods activities. No price has been disclosed, but reports suggest the stake was sold for around L60bn ($50m).

Banca di Trento e Bolzano, which had deposits of L1,642bn in 1990, has around 50 branches in the Trento and Alto Adige regions.

Ambroveneto's purchase may mark the first step towards taking full control of the bank. Among other shareholders in ISA are Banca San Paolo di Brescia and Mittel, two financial institutions largely controlled by Ambroveneto's chairman, Mr Giovanni Bazoli.

# BBV reports profits up by 4%

By Peter Bruce in Madrid

BANCO Bilbao Vizcaya (BBV), one of Spain's large commercial banks, reported a 4 per cent increase in net profits for 1991 and a 3 per cent dividend increase to Pta163.

Mr Emilio Ybarra, president, said net group profits had grown slightly to Pta109.1bn ($1.08m), and warned that a general slide in Spanish bank lending margins had hit the bank.

The bank reported a 50 per cent increase in extraordinary income, although officials at the bank insisted that half of the Pta71bn reported were the proceeds of trading in its "normal" portfolio.

The other half was accounted for by the sale of two banking affiliates and the closure of duplicate branches brought about by the merger of Bilbao and Vizcaya banks in 1988.

Mr Ybarra acknowledged that BBV's dividend was low, but said that in the current economic climate, the bank had to be prudent.

Profits have been hit by a sudden explosion in sales of unit trusts, brought about by new, relaxed tax rules last year, and they are still feeling the effects of competition.

# Charges hold back Philip Morris

By Karen Zagor in New York

PHILIP MORRIS, the US food, drink and tobacco group, yesterday unveiled a 21.2 per cent rise in underlying 1991 profits, to $4.29bn.

However, large charges for an accounting change and restructuring contributed to an overall decline, leaving net income for the period down 15.1 per cent at $3bn, or $3.25 a share.

During the 1991 fourth quarter, the group took a $1bn non-cash charge for the accounting change and an additional $275m charge for restructuring its worldwide food business.

As a result, net income in the fourth quarter dropped almost 13 per cent to $767m, or 83 cents a share. Operating revenues eased 3.7 per cent in the quarter to $13.7bn, reflecting the impact of currency translations and a decline in revenues from the group's North American food operations.

Stripping out the one-time items in the 1991 fourth quarter, pre-tax income advanced 15.7 per cent while net earnings rose 21 per cent.

Philip Morris said that its real estate and North American food businesses were the only units that did not post improved profits in the quarter.

Mr Michael Miles, who replaced Mr Hamish Maxwell as chairman last summer, said the company's earnings and cash flow grew strongly in 1991 in spite of the US recession.

"Although we expect consumer packaged goods companies to face extremely competitive conditions in a weak economic environment during most of 1992, we are well-positioned for continued earnings and cash flow growth."

Operating profits in the domestic tobacco division rose 14.3 per cent to $4.8bn for the year in spite of a shrinking US market, where industry volume fell 2.4 per cent in the year. International tobacco profits rose 24 per cent to $1.7bn.

Food earnings rose 14.4 per cent to $3bn on revenues that grew 8 per cent to $28.2bn. The comparisons are distorted by the inclusion of Jacobs Suchard, the Swiss chocolate and coffee company, which Philip Morris acquired in the autumn of 1990 for $4.1bn.

Most of the growth came from the group's overseas businesses. North American food saw a 7.7 per cent improvement in operating income to $2.1bn.

Beer earnings advanced 13.3 per cent to $323m on revenues which grew 14.8 per cent to $4.1bn.

Shares in the group rose $1⅞ to $78⅛ at mid-day yesterday in New York.

# Ontario to sell its 25% stake in Suncor

By Bernard Simon in Toronto

THE ONTARIO government is to sell its 25 per cent stake in Suncor, one of Canada's largest oil producers, in the latest of a string of ownership changes in the Canadian energy industry.

Suncor said yesterday it planned a secondary offering of up to 45 per cent of its shares held by its two shareholders, Sun Company of Philadelphia and the Ontario Energy Corporation, a provincial government agency. The offering will be made in Europe and the US as well as Canada.

Sun Company plans to cut its holding to below 55 per cent, from just under 75 per cent. The Ontario government bought its stake at the height of the 1981 oil crisis to get a window on the producing side of the energy industry.

About 1 per cent of Suncor's common shares are traded over-the-counter in Canada. Yesterday's bid price of C$20 a share indicates a market value of about C$2bn (US$1.7bn). But Mr Denis Mote, analyst at Maison Placements in Toronto, said the price of the thinly-traded shares did not necessarily reflect market value, especially at a time when a large number of oil and gas properties were up for sale.

Ontario is unlikely to recoup its original C$650m investment in Suncor. The province has been eager to sell its stake for some time to help fund a spiralling budget deficit.

The pace of mergers and acquisitions in the Canadian oil industry has accelerated in the past few years as larger companies, many of them burdened by heavy debts, have sought to rationalise their assets. UK-based Lasmo wants to sell those businesses in Canada it acquired when it took over Ultramar. Petro-Canada and Amoco have been among the other active sellers.

Suncor operates the world's first commercial oilsands plant, near Fort McMurray, Alberta, with an output last year of 63,000 barrels a day. It produced the equivalent of 23,000 barrels a day of oil and gas from conventional sources last year. The company earned C$77m in 1991 on revenue of C$1.6bn.

# Motorola and Unisys strike R&D accord

By Louise Kehoe in San Francisco

UNISYS and Motorola have expanded their collaboration in chip technology development, manufacturing and design by entering a semiconductor technology alliance.

Motorola, the largest US semiconductor manufacturer, is already a main supplier to Unisys, the US computer group. Under the new agreement, however, Unisys and Motorola will jointly define new chip production process and design technologies for customised chips to be used in future Unisys mainframe computer systems.

Unisys said it would phase out its last chip-making operation, in California, making the company the largest computer manufacturer to rely entirely on outside sources for its semiconductor supplies.

"The alliance confirms our commitment to focus our resources where we add unique value, and team with industry leaders in other disciplines," said Mr James Unruh, Unisys chairman and chief executive.

Under the agreement, Unisys, the third largest US computer maker, will gain earlier access to Motorola advances in chip design.

Unisys will incorporate Motorola semiconductor devices into future mainframe computer systems, and joint engineering teams will define and develop semiconductor products.

The Unisys-Motorola alliance follows an agreement between Unisys and Intel, announced late last year, in which Unisys agreed to standardise its open systems product lines on Intel microprocessors.

The new agreement with Motorola means that Unisys will base its customised semiconductor requirements on Motorola technology.

For Unisys, the semiconductor partnerships represent a way of reducing development and manufacturing costs, at a time when the computer company is struggling to maintain profitability.

# Westinghouse cuts dividend

By Martin Dickson in New York

WESTINGHOUSE Electric, the US conglomerate which has been hit by bad real estate loans, yesterday moved to shore up its finances by virtually halving its dividend and announcing plans to issue $500m of new stock.

Both of the Westinghouse board's actions had been widely expected on Wall Street because of problems at Westinghouse Credit, its financial services subsidiary, which has been reeling from poor investments in speculative real estate and highly leveraged buy-outs in the late 1980s.

Westinghouse took a $1.68bn charge in the third quarter to cover problems at the finance company and is trying to sell many of its assets to bolster its balance sheet and reduce debt.

The recession has hit the company's other businesses, which range from power systems to broadcasting.

The dividend cut reduces the pay-out due on March 1 from 35 cents to 18 cents.

Mr Paul Lego, the chairman, said this would both provide capital and reduce the amount of equity the company needed to raise.

The equity will take the form of preferred equity redemption cumulative stock, one of the most popular new instruments on Wall Street.

Mr Lego said these measures, together with the company's recent establishment of a $6bn line of credit, a $200m cost-cutting programme and strong cash flow from operations, "are sufficiently far-reaching to provide a sound capital structure and meet our financial needs.

"Nevertheless, we will continue the orderly reduction of assets at our financial services subsidiary."

Separately, he announced that the adoption of a new accounting standard for retirees health benefits, which is hitting the balance sheets of many American companies, would have no impact on Westinghouse shareholders' equity.

It would be offset by the beneficial effects of a new tax accounting standard and the improved performance of the group's pension fund, he said.

# Amex advances 72% in quarter

By Martin Dickson

AMERICAN Express, the US financial services group buffeted by credit card loan losses, reported a 72 per cent increase in fourth-quarter earnings, although income at its core cards business dropped by almost two-thirds.

The group reported net income of $237m, or 47 cents a share, on revenues of $6.6bn, compared with income of $138m, or 28 cents, on $6.3bn of revenues in the same period of 1990, when it was hit by particularly heavy losses at its Shearson Lehman investment banking subsidiary.

The figures were broadly in line with Wall Street expectations.

For the full year, it reported net income of $789m, or $1.59 a share, against $181m, or 34 cents, in 1990, when it took a $837m restructuring charge at Shearson.

Over the past year, Shearson's performance has improved, helped by rising stock and bond markets, while Amex's core Travel Related Services (TRS) business, which includes its cards and travellers cheques operation, has been hit by the recession.

The company shocked Wall Street last autumn when it took a $265m charge against earnings, including $155m to cover credit losses, mainly at its Optima credit card.

TRS's fourth-quarter net income totalled $81m, down from $215m a year ago. Charge volume on its credit cards totalled $30bn, a 1.3 per cent increase from last year.

For the full year, TRS produced net income of $396m, down from $956m, due to a $432m post-tax increased provision for credit losses, $110m of third-quarter restructuring charges, a $200m increase in operating expenses and a $24m rise in marketing expenses.

Worldwide charge volume totalled $111bn, unchanged from a year ago, while the number of establishments accepting the card rose 7.6 per cent to over 3.5m. Cards in force rose slightly to 36.6m – a drop from past growth rates which the company said was due to tightened credit procedures and reduced solicitation.

Shearson reported record income of $130m in the fourth quarter, compared with a $115m net loss a year ago, while the IDS financial services unit saw profits rise 21 per cent to $68m.

# Weyerhaeuser $161.9m in red for year

WEYERHAEUSER, the US timber products group, has suffered a loss amid conditions which include the lowest rate in US housing starts since the Second World War, Reuter reports.

The company posted a 1991 year-end loss of $161.9m, or 80 cents a share, including a $283m fourth-quarter restructuring charge and a $61m accounting change charge. Revenues fell to $8.7bn from $9.02bn in 1990.

In 1990, the company earned $393.7m, or $1.87 a share.

The company also cited a 20 per cent drop in Japanese housing starts in 1991, falling prices in all leading pulp and product lines, and a property market in turmoil as reasons for its lower results.

In the fourth quarter, Weyerhaeuser's pulp and paper earnings were down 85 per cent.

# Lower metal prices hit net at Asarco

By Barbara Durr in Chicago

ASARCO, one of the world's leading integrated producers of non-ferrous metals, has recorded a steep fall in its 1991 net earnings.

Lower prices for the company's principal products of copper, lead, silver and zinc brought the results down. They also suffered from lower prices for specialty chemicals.

Earnings in 1991 fell to $46m, or $1.12 per share, from $149.1m, or $3.60, in 1990. Sales were $1.9bn, down from $2.3bn in 1990.

The decline prompted the company to halve its quarterly dividend to 20 cents from 40 cents, the level at which it had stood since April 1989.

"In a cyclical business such as ours, the dividend rate must relate to the company's earnings," said Mr Richard Osborne, chairman.

In the fourth quarter, net earnings were $12.2m, or 30 cents, compared with $3.7m, or 10 cents.

However, the 1990 fourth quarter included a non-recurring after-tax charge of $51.5m, or $1.24 per share, for environmental clean-up and royalty costs. Sales were $492.4m, down from $549.9m in 1990.

Mr Osborne said that although demand for copper remained strong, demand for lead and zinc continued to be affected by the recession-hit US vehicle market.

He noted that Pacific Rim markets had remained strong, while European markets for base metals had weakened.

# Nine Canadian telecoms sign marketing deal

NINE Canadian telephone utilities are forming a new company to co-ordinate their move into international markets and to oversee research and marketing of domestic telephone services, writes Bernard Simon.

The new company, Stentor Resource Centre, comprises all but one of the shareholders of Telecom Canada, the alliance which administers Canada's domestic long-distance system. Stentor is expected to start operations next January with about 2,500 employees.

Stentor will be dominated by Bell Canada, the biggest of the phone companies. Bell, subsidiary of Montreal-based BCE, provides service to most of Ontario and Quebec and has a substantial shareholding in several smaller provincial companies.

The utilities face pressure on their monopoly of the Canadian telephone system. Regulators are due to decide within the next few months whether to open the long-distance market to competition.

# McDonnell Douglas rises

MCDONNELL DOUGLAS, the financially-stretched US defence and aerospace group, underscored its improving health by reporting a sharp increase in fourth-quarter earnings and a further reduction in its debt burden, writes Martin Dickson.

The St Louis-based company, which is being hit by the downturn in US defence spending, reported net earnings of $211m, or $5.50 a share, compared with break-even in the fourth quarter of last year, when the company took a $219m after-tax provision for the cancelled A-12 aircraft programme.

Revenues totalled $1.5bn, against $1.12bn. For the full year, the group earned $423m, or $11.03 a share, compared with $306m, or $7.99 in 1990.

The company's debt – apart from at its financial services unit – fell to $2.39bn at the year-end, against $2.68bn three months before. The level of debt has dropped 28 per cent since its peak last March, when analysts questioned if the company might have to file for bankruptcy. The company still needs capital to develop aircraft, and Taiwan Aerospace is considering buying a 40 per cent stake in its civil aircraft operations for $2bn.

Behind the improving balance sheet and profit figures is a much better performance at its civil aircraft business, which began deliveries of its new wide-bodied jet, the MD-11, just before the start of 1991.

**INTERNATIONAL COMPANIES AND CAPITAL MARKETS**

# ANZ seeks A$780m by rights issue

By Bruce Jacques in Sydney

AUSTRALIA and New Zealand Banking Group (ANZ) has continued the trend for leading Australian banks to top up their equity bases with a one-for-five rights issue seeking almost A$780m (US$586.4m).

ANZ, one of Australia's four leading trading banks, yesterday confirmed market speculation with a fully-underwritten issue at A$3.76 a share, well below yesterday's price of A$4.35 on the Australian Stock Exchange.

The offering follows a A$600m preference share issue by ANZ in May last year, and brings the amount of major bank equity raised in Australia in the past year to more than A$4bn.

This includes A$1.65bn raised in the flotation of 30 per cent of the Commonwealth Bank and a A$1bn share issue by National Australia Bank.

Conspicuous by its absence from the equity raising queue has been Westpac, the other leading Australian bank. But with speculation continuing on the possibility of another big bank merger, the market is bracing for an imminent Westpac issue.

Westpac also lost ground against its competitors yesterday with the release of bank debt ratings by Standard and Poor's Australian Ratings. The ratings agency lowered various debt ratings for Westpac and some of its subsidiaries, but reaffirmed ratings of the National Australia Bank and ANZ.

The agency said the Westpac downgrade was due to the weakening of asset quality through emergence in 1991 of substantial property-related problem exposures. But it commended Westpac management's efforts to address problems.

The rash of Australian bank equity raisings reflects a desire to take advantage of a relatively strong Australian share market, and the need to maintain capital adequacy ratios at or above international standards.

Announcing the issue at ANZ's annual meeting in Melbourne yesterday, Mr Milton Bridgland, chairman, said he recognised the need for additional capital over the next two years.

"The funds raised by the issue will further strengthen our capital base, which, whilst already sound by international standards, will be subject to some statutory adjustments over the forthcoming 18 months," he said.

"These adjustments relate to the deduction of future income tax benefits from our capital base calculation with effect from October 1 1992, and the similar deduction of general provisions relating to rescheduled debt a year later.

"This share issue will adequately compensate for both these adjustments about six months in advance in each case. Our capital adequacy ratio is projected to be well in excess of 10 per cent over the next two years, substantially above the 8 per cent required by the Reserve Bank."

Mr Bridgland said ANZ, which is among the more international of Australia's banks through its control of the UK-based Grindlays group, would apply for listing of the new shares in Australia, New Zealand and London.

The issue is payable in two tranches, A$1.88 by March 27 this year and the balance a year later.

Rights trading is scheduled to begin in Australia and the UK on February 13 and in New Zealand on February 19.

Stockland Trust Group, one of Australia's largest listed property trusts, will raise A$62.4m from a placement of converting preference units and shares to institutional investors.

The issue will involve 24m new securities at A$2.60 – A$2 for the units and 60 cents for the shares – with 12m attaching options which will be separately listed.

# A shake-out for S African banking

**Philip Gawith examines the planned merger of ABSA with Bankorp**

THE decision by ABSA and Bankorp to merge, forming a giant South African bank with assets of over R80bn ($28.7bn), brings to a head an important shake-out in the country's banking sector, whose ramifications will affect the entire sector and perhaps beyond.

The deal has been welcomed because it removes Bankorp, the weakest of the big five banks in South Africa, from the sector without making ABSA excessively powerful.

However, ABSA is only 10 months old, the product of a complicated merger last year between United, Allied, Volkskas and part of the Sage group, and there are question marks over whether this earlier deal has settled down well enough to justify taking over Bankorp, a banking group with its fair share of troubles.

For instance, Mr Alan McConnochie, banking analyst at Ed Hern, Rudolph, the stockbroker, says he believes that Allied's operations have been well integrated into ABSA. But he questions whether the rationalisation of Volkskas's operations into the group has has even started.

However, he notes three reasons which explain the timing of the deal: the availability of a large assessed tax loss at Bankorp; a better product mix which the deal gives; and the fact that it takes the pressure off volume growth at a time when slow South African money supply growth is putting banks under pressure.

While the latest deal may cause ABSA difficulties in absorbing all its disparate parts, there is no doubt it leaves the industry in a healthier state. Volkskas and Bankorp were always lame ducks in the sector, ripe for the picking when stricter capital adequacy requirements and the need to make expensive computer hardware pay through high volumes brought pressures for rationalisation.

Further rationalisation in the South African banking sector among the larger players, at least in the short term, is seen as now unlikely.

While competitors will comfort themselves with the thought that ABSA will be heavily weighed down in the short term by merger baggage, they will not be so happy about the longer term. Mr McConnochie says that if ABSA succeeds in achieving cost rationalisation through economies of scale, then it will be able to put a lot of pressure on competitors to get their costs down.

> Three reasons explain the timing of the deal: the availability of a large assessed tax loss at Bankorp; a better product mix the deal gives; and the fact that it takes the pressure off volume growth at a time when slow South African money supply growth is putting banks under pressure.

Particularly upset by the merger will be Stanbic, which can no longer claim it is the country's top bank. When ABSA was formed, it overtook Stanbic in terms of assets – R53bn against Stanbic's R48bn. But Stanbic was still able to claim that it was larger in terms of shareholders' funds and by market capitalisation.

This has now changed. ABSA's shareholders' funds are R4.4bn, against R3.3bn at Stanbic, while its market capitalisation of R6.5bn compares with Stanbic's R5.9bn.

There were rumours in the market earlier this week that when Stanbic got wind of the deal, it went to the Reserve Bank of South Africa and sought to have it stopped. The Competition Board, however, has given the deal the go-ahead, and there does not seem much reason to dispute its reasoning.

Mr Richard Jesse, banking analyst at Martin and Co, the stockbroker, says that the main effects of the deal, in terms of market share, are that it lifts ABSA from 15 to 32 per cent of the hire purchase market and from 11 to 31 per cent of the leasing market. It already had 32 per cent of the home loans market. He notes that none of these figures could be described as excessive market concentration.

The parties which have most to be pleased about are Sanlam and Sankorp which have ploughed large sums into Bankorp, often by way of accepting scrip dividends in lieu of cash to help the bank through its difficulties.

Another market rumour was that an investigation of the Bankorp balance sheet, to coincide with the release of its December results, would reveal that the bank may have needed a further R1bn capital injection. This would have been an unacceptable prospect for Sankorp, the industrial arm of the Sanlam group, which already held 86 per cent of Bankorp's equity. As a result of the ABSA/Bankorp merger, Sanlam's stake drops to 21 per cent of the enlarged ABSA.

Mr Jesse says the benefits ABSA receives from the deal are clear: not only has it increased market share in the important leasing and hire purchase areas, where it was underweighted relative to its size, but the sheer size of the new group will confer considerable economies of scale.

Against this must be weighed the prospect of ABSA buckling under the strain of a second merger, not to mention possible problems it is picking up at Trust Bank, Bankorp's retail arm. Although Mr Piet Liebenberg, Bankorp's chairman, has been sweeping a new broom through the group for 18 months, analysts believe there remain numerous bad apples to be discovered.

Mr Liebenberg lent support to this view in his most recent chairman's statement when he commented pessimistically: "Fully restoring the profitability and professional management capabilities at all levels within the group. . . will still take several years to complete."

ABSA is to some extent protected here by a clause which says the R1.3bn price ABSA is paying for all of Bankorp's equity is subject to a due diligence investigation still to be completed.

One non-banking side of the deal raises the question, as yet unanswered, as to the co-operation between Sanlam and Rembrandt, the two giants of Afrikaans business which have not always been best of friends. Together they wield financial clout to rival the giant Anglo American group.

# Two US exchanges in derivatives venture

By Barbara Durr in Chicago

IN LIGHT of US investors' expanding interest in mid-sized growth companies, the Chicago Mercantile Exchange and the American Stock Exchange have announced they will jointly launch derivative products based on the new Standard & Poor's Mid-Cap 400 Index.

On February 13, the CME will offer futures and options on futures and the American Stock Exchange will begin trading options on the S&P MidCap 400.

Introduced by Standard & Poor's last year, the MidCap Index is composed of 400 companies with a median capitalisation of $754m and total market value of about $425bn. To date, investors have indexed almost $3bn in assets to the S&P MidCap 400.

Both exchanges were granted exclusive licences to trade derivative instruments on the MidCap index last September.

The Securities and Exchange Commission, the securities industry regulator, has approved the American Stock Exchange's use of the MidCap, and approval by the Commodity Futures Trading Commission, the futures industry regulator, is expected for the CME on February 11.

● The New York Commodity Exchange filed an application with the Commodity Futures Trading Commission to list futures and options on futures based on the Eurotop 100 index. Comex made its application after reaching an agreement with the European Options Exchange in Amsterdam, which trades and controls rights to the index.

# Adsteam and bankers agree refinancing deal

ADSTEAM, the diversified industrial empire formerly controlled by Sydney-based corporate raider Mr John Spalvins, has announced long-awaited agreement with its bankers for a refinancing package, writes Bruce Jacques.

The package, which should stave off formal collapse by the three main group companies, Adelaide Steamship, David Jones and Tooth and Co, has been under negotiation since last year.

It involves total debts of about A$3.3bn (US$2bn) and will effectively delay interest payments until cash is available from operations. The agreement removes pressure for further asset sales and should ensure group companies continue trading.

The package may also facilitate the refloat of the jointly controlled Woolworths operations, one of the country's most successful retailers.



# Platinum returns put brake on JCI

By Philip Gawith in Cape Town

JOHANNESBURG Consolidated Investment (JCI), the South African mining house which controls the world's largest platinum group, reported a 5 per cent increase in attributable earnings in the six months to the end of December.

Pre-tax profits increased to R176.4m ($63.4m) from R171.4m, and attributable earnings were up to R166.1m from R158.4m. The vast bulk of this – R144.7m – came from investment income, with R16.8m attributable from operating subsidiaries and R14.5m abnormal items.

Equity accounted earnings were only 1 per cent up at R190.6m following a drop in the share of retained earnings from associated companies to R24.5m from R30.7m. This was the result of lower 1991 earnings from Rustenburg Platinum, the world's largest platinum producer. This offset the gains which JCI received from Rusplats's higher 1991 dividends, reflected in the investment income, and the abnormal item which was the result of Rusplats paying a one-off dividend in specie.

Apart from the performance of Rusplats, earnings were hit by ferrochrome producer CMI passing its dividend, a reflection of the difficult state of world markets, and modest earnings from some of JCI's industrial interests which include large stakes in South African Breweries, Premier Group, Argus and Times Media.

The outlook for the second half is that earnings will probably be below 1991 levels. Rusplats cut its interim dividend by 30 per cent last week and there is not sign yet of recovery in the world platinum and rhodium price.

Earnings per share rose to 113 cents from 107 cents, and the dividend was maintained at 42 cents.

# USF&G reduces net loss for full year to $179m

By Karen Zagor in New York

USF&G, whose property/casualty operations rank about 13th in premium volume, has turned in a fourth-quarter loss of $40m, or 62 cents a share, reflecting the difficulties faced by many US insurers in 1991.

The loss compares with a fourth-quarter deficit of $610m, or $7.32 a share, in 1990. The 1991 figures include one-time gains of $16m, more than offset by one-time charges of $50m. Revenues eased to $1.02bn from $1.17bn.

The company cut its fourth-quarter operating loss to $7m, or 23 cents, from $113m, or $1.40, in the previous year.

For the full year, USF&G's net loss was $179m, or 38 cents a share, on revenues of $4.13bn compared with a deficit of $569m, or $1.82, on revenues of $4.53bn in 1990.

USF&G said it had met its 1991 objective of strengthening its balance sheet, cutting costs and sharpening its business focus.

Mr Norman Blake, chairman and chief executive, said the performance of the property/casualty offshoot was particularly encouraging. "Its fourth quarter 1991 operating income of $17m was the best since the second quarter of 1990."

# Treasuries buoyed by State of Union address

By Patrick Harverson in New York and Sara Webb in London

THE PRICE of US Treasury securities firmed at both ends of the maturity range yesterday morning after an unthreatening State of the Union speech by President George Bush.

By midday, the benchmark 30-year government bond was up ⅛ at 104⅛, yielding 7.640 per cent. The two-year note was slightly firmer, up 1/32 at 99⅞, yielding 5.058 per cent.

After worrying that Mr Bush might announce extensive tax-cutting proposals in his Congress speech, bond investors were relieved that the measures outlined were relatively modest. The market was also buoyed by Mr Bush's claim that he wanted to stick to the 1990 budget accord. Investors had feared big tax cuts would increase the size of the deficit and push up long-term interest rates.

The day's only economic statistics, fourth-quarter 1991 gross domestic product (GDP), were too historical to have much of an impact. The figures showed GDP rose 0.3 per cent in the final quarter of last year, in line with market expectations. Over the full year, GDP contracted by 0.7 per cent.

## GOVERNMENT BONDS

■ ACTIVITY in the UK government bond market yesterday was dominated by the Bank of England's auction of £1.8bn of 10-year gilts.

The average accepted bid for the 9¾ per cent gilt due 2002 was 102⅝, yielding 9.42 per cent, while the lowest accepted bid was 102⅛, yielding 9.43 per cent. Bids amounted to £3.64bn, giving a bid-to-cover ratio of 2.02. Traders said the demand was better than expected, particularly from foreign investors keen on buying the 10-year sector.

The Liffe bund futures contract slipped from its opening of 97.20 to 97.17 while the benchmark 11¾ per cent gilt due 2003/07 was unchanged on the day at 115⅞.

■ THE German government bond market fell as bondholders took profits and switched out of short-dated bund issues.

The market kicked off on a firm note, taking its cue from the US Treasury bond market which was strong overnight.

However, the Liffe bund futures contract later fell from its opening of 88.55 to trade at 88.36 by late afternoon, as traders noted some switching out of short-dated issues on fears that German interest rates are likely to remain high for some time. Some of the money was switched into longer-dated bunds and Dutch government bonds.

The announcement of western German cost of living figures also prompted some profit-taking. The cost of living was 0.5 per cent higher in January and was up 4.0 per cent on January 1991.

The Dutch Ministry of Finance closed its latest offering of the 8.25 per cent 15-year tap issue after raising Fl 5.5bn. The Finance Ministry said the average price of the 15-year bonds in the offering was 99.58 with a yield of 8.30 per cent.

■ JAPANESE government bonds ended firmer, taking their lead from the strength of the US Treasury bond market.

The yield on the benchmark No 129 bond moved from its opening level of 5.25 per cent to close at 5.23 per cent, despite a rise in short-term interest rates. The rate on three-month certificates of deposit rose to 5.10 per cent from 5.07 per cent on Tuesday, while the unsecured call money rate rose by 1/16 to 5 9/16 per cent.

The Finance Ministry sold Y472.64bn of 5.5 per cent 10-year government bonds at an average price of 100.82 yielding 5.373 per cent. Although a total of Y800bn of the 10-year issue was offered for sale, as usual 60 per cent is placed through the auction while the remainder is sold through the underwriters' syndicate.

**BENCHMARK GOVERNMENT BONDS**

| | | Coupon | Red Date | Price | Change | Yield | Week ago | Month ago |
|---|---|---|---|---|---|---|---|---|
| AUSTRALIA | | 12.000 | 11/01 | 110.8193 | -0.726 | 10.22 | 9.90 | 9.45 |
| BELGIUM | | 9.000 | 08/01 | 102.5000 | +0.200 | 8.59 | 8.62 | 8.94 |
| CANADA * | | 8.500 | 04/02 | 102.1000 | +0.950 | 8.19 | 8.22 | 8.20 |
| DENMARK | | 8.000 | 11/00 | 103.2000 | -0.025 | 8.46 | 8.45 | 8.72 |
| FRANCE | BTAN | 8.500 | 11/96 | 99.5147 | +0.037 | 8.60 | 8.60 | 9.10 |
| | OAT | 8.500 | 01/01 | 105.8900 | -0.140 | 8.41 | 8.40 | 8.66 |
| GERMANY | | 8.25 | 09/01 | 102.3300 | -0.020 | 7.88 | 7.89 | 8.04 |
| ITALY | | 12.000 | 06/01 | 98.7300 | -0.110 | 12.22 | 12.23 | 12.55 |
| JAPAN | No 119 | 4.800 | 06/99 | 96.1180 | +0.177 | 5.54 | 5.47 | 5.64 |
| | No 129 | 6.400 | 03/00 | 106.7119 | +0.242 | 5.22 | 5.19 | 5.39 |
| NETHERLANDS | | 8.500 | 03/01 | 100.9100 | +0.040 | 8.35 | 8.34 | 8.60 |
| SPAIN | | 11.900 | 07/98 | 101.8200 | +0.050 | 11.29 | 11.31 | 11.78 |
| UK GILTS | | 10.000 | 11/96 | 101-23 | +0/32 | 9.54 | 9.62 | 10.00 |
| | | 10.000 | 02/01 | 103-09 | +2/32 | 9.46 | 9.51 | 9.79 |
| | | 9.000 | 10/08 | 96-14 | +1/32 | 9.18 | 9.23 | 9.58 |
| US TREASURY * | | 7.500 | 11/01 | 102-17 | +5/32 | 7.19 | 7.08 | 6.74 |
| | | 8.000 | 11/21 | 104-08 | +9/32 | 7.64 | 7.61 | 7.46 |

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal. Technical Data/ATLAS Price Sources

# New South Wales debt rating confirmed

MOODY'S Investor Service, the US ratings agency, has confirmed its AAA rating on the debt of one Australian state but given a negative view on two others, writes Bruce Jacques.

Government debt of Australia's most populous state, New South Wales, has retained its AAA rating, with Moody's citing decisive action by the state government to counteract the negative budgetary effects of the country's economic downturn.

"The rating agency's review has evaluated the impact of current negative trends on the state's fiscal position and it concluded that these trends have not caused substantial medium term damage to New South Wales' creditworthiness," Moody's said.

But the ratings agency has reduced its rating on the debt of the Western Australian government from AAA to AA1 and it is also reviewing the AA1 rating which is held by the South Australian government.

**FT/ISMA INTERNATIONAL BOND SERVICE**

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 8:10 pm on January 29

| U.S. DOLLAR STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| ABN 9 1/8 94 | 200 | 106¼ | 107⅛ | +⅛ | 6.21 |
| ALBERTA PROVINCE 9 3/8 95 | 600 | 109⅛ | 109⅝ | +⅛ | 6.49 |
| AUSTRIA 8 1/2 00 | 400 | 106¼ | 106⅝ | +⅛ | 7.45 |
| BANK OF TOKYO 8 3/8 96 | 100 | 104¼ | 105¼ | +⅛ | 7.01 |
| BELGIUM 9 5/8 98 | 200 | 111¼ | 111¾ | +⅛ | 7.35 |
| BFCE 7 3/4 97 | 150 | 103¾ | 104¼ | +⅛ | 6.85 |
| BNP 8 5/8 94 | 300 | 106¼ | 106⅝ | +⅛ | 5.80 |
| BRITISH GAS 8 3/8 99 | 350 | 105¼ | 105¾ | +⅛ | 7.46 |
| CANADA 9 96 | 1000 | 108¾ | 109¼ | +⅛ | 6.45 |
| CARCO 9 1/4 96 | 600 | 101¾ | 102¼ | -1⅛ | 8.74 |
| CCCE 9 1/4 95 | 300 | 108¼ | 108¾ | +⅛ | 6.14 |
| COUNCIL EUROPE 8 96 | 100 | 105¼ | 105¾ | +⅛ | 6.45 |
| CREDIT FONCIER 9 1/2 99 | 300 | 111 | 111½ | +⅛ | 7.44 |
| DENMARK 8 1/4 94 | 150 | 105¼ | 105¾ | +⅛ | 5.89 |
| DENMARK 9 1/4 95 | 1571 | 108¼ | 108¾ | | 6.18 |
| ECSC 8 1/4 96 | 193 | 106¼ | 106¾ | +⅛ | 6.72 |
| EEC 8 1/4 96 | 100 | 105½ | 106⅛ | +⅛ | 6.74 |
| EIB 7 3/4 96 | 250 | 104¼ | 104¾ | +⅛ | 6.60 |
| EIB 9 1/4 97 | 1000 | 110¼ | 110¾ | +⅛ | 7.00 |
| ELEC DE FRANCE 9 98 | 200 | 108¼ | 108¾ | +⅛ | 7.25 |
| EURO CRED CARD TST 9 94 | 325 | 103¾ | 104¼ | -⅛ | 7.40 |
| EUROFIMA 9 1/4 96 | 100 | 108¼ | 108¾ | | 6.91 |
| EXPORT DEV CORP 9 1/2 98 | 150 | 110¾ | 111¼ | +⅛ | 7.33 |
| FINLAND 7 7/8 97 | 200 | 103¼ | 104 | +⅛ | 7.08 |
| FINNISH EXPORT 9 3/8 95 | 200 | 109 | 109½ | +⅛ | 6.47 |
| FORD CAPITAL 9 3/4 97 | 250 | 105¾ | 106¼ | +⅛ | 8.52 |
| GEN ELEC CAPITAL 9 3/8 96 | 300 | 108¼ | 108¾ | +⅛ | 7.06 |
| GMAC 9 1/8 96 | 200 | 103¾ | 104¼ | | 7.97 |
| GUINNESS FINANCE 8 94 | 200 | 104 | 104½ | | 6.17 |
| IBM INTL FIN 7 3/4 94 | 200 | 104¼ | 104¾ | +⅛ | 5.70 |
| IND BK JAPAN FIN 7 7/8 97 | 200 | 102¾ | 103¼ | +⅛ | 7.18 |
| INTER AMER DEV 7 5/8 96 | 200 | 103¾ | 104¼ | +⅛ | 6.64 |
| ITALY 8 1/2 94 | 1500 | 106¼ | 106¾ | +⅛ | 5.85 |
| JAPAN DEV BK 8 94 | 150 | 104¾ | 105 | +⅛ | 5.78 |
| KANSAI ELEC PWR 10 96 | 350 | 110¾ | 111¼ | +⅛ | 6.90 |
| LTCB FIN 8 97 | 200 | 102¾ | 103¼ | +⅛ | 7.95 |
| NEW ZEALAND 9 94 | 850 | 106¼ | 106¾ | | 6.18 |
| NIPPON CRED BK 10 3/8 95 | 150 | 110¾ | 111¼ | +⅛ | 6.90 |
| NIPPON TEL & TEL 9 3/8 95 | 200 | 108¼ | 108¾ | +⅛ | 6.35 |
| ONTARIO 8 1/2 01 | 600 | 103¾ | 104¼ | +⅛ | 7.90 |
| ONTARIO HYDRO 11 5/8 94 | 200 | 110¼ | 110¾ | -⅛ | 6.09 |
| OSTER KONTROLLBANK 8 1/2 01 | 200 | 105¼ | 105¾ | +⅛ | 7.65 |
| PETRO-CANADA 7 1/4 96 | 200 | 102 | 102½ | +⅛ | 6.69 |
| QUEBEC HYDRO 9 3/4 98 | 150 | 110¼ | 110¾ | +⅛ | 7.69 |
| QUEBEC PROV 9 98 | 200 | 106½ | 107 | +⅛ | 7.61 |
| SAINSBURY 9 1/8 96 | 150 | 107¼ | 107¾ | +⅛ | 7.26 |
| SAS 10 99 | 200 | 107¾ | 108¼ | +1⅛ | 8.56 |
| SBAB 9 1/2 95 | 500 | 108¾ | 109¼ | +⅛ | 6.48 |
| SNCF 9 1/2 98 | 150 | 110¼ | 110¾ | +⅛ | 7.39 |
| STATE BK NSW 8 1/2 96 | 200 | 104½ | 105 | | 7.29 |
| SWEDISH EXPORT 8 3/8 96 | 700 | 106 | 106½ | +⅛ | 9.06 |
| TOKYO ELEC POWER 8 3/4 96 | 300 | 107 | 107½ | +⅛ | 6.89 |
| TOKYO METROPOLIS 8 1/4 96 | 200 | 105¾ | 106¼ | +⅛ | 6.79 |
| WORLD BANK 8 3/8 99 | 1500 | 106¼ | 106¾ | +⅛ | 7.34 |
| WORLD BANK 8 3/4 97 | 1500 | 109 | 109½ | +⅛ | 6.74 |
| XEROX CORPN 8 3/8 96 | 100 | 103¾ | 104¼ | +⅛ | 7.54 |

| DEUTSCHE MARK STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| AMRO BANK 5 3/4 94 | 200 | 93¾ | 94¼ | | 8.95 |
| BAPROVEN 11 1/8 95 | 200 | 101 | 101 | +⅛ | 10.74 |
| BULGARIAN TRADE BK 8 1/2 96 | 200 | 83 | 83 | -½ | 13.85 |
| CZECH OBCHODNI BANKA 10 95 | 350 | 96¾ | 96¾ | -⅛ | 11.08 |
| DAI-ICHI KANGYO 5 1/2 94 | 300 | 93¾ | 93¾ | | 8.99 |
| DEUTSCHE FINANCE 7 1/2 95 | 1000 | 99¾ | 99¾ | +⅛ | 7.74 |
| EIB 5 3/4 98 | 400 | 90¾ | 90¾ | -⅛ | 7.71 |
| EIB 6 7/8 95 | 300 | 96¾ | 96¾ | +⅛ | 7.93 |
| EUROFIMA 6 1/4 98 | 400 | 91½ | 91½ | -⅛ | 7.97 |
| FIRST INTERSTATE 5 3/4 96 | 100 | 86¾ | 86¾ | +⅛ | 9.75 |
| IND BK JAPAN FIN 5 5/8 96 | 200 | 91 | 91 | | 8.21 |
| IND DEV BK INDIA 6 3/8 94 | 200 | 90¾ | 90¾ | +⅛ | 10.33 |
| LUFTHANSA INT FIN 5 7/8 98 | 500 | 89¾ | 89¾ | +⅛ | 8.02 |
| NACIONAL FINANCIERA 11 95 | 150 | 100½ | 100½ | -⅛ | 10.77 |
| QUEBEC HYDRO 6 3/4 99 | 300 | 92¾ | 92¾ | | 8.19 |
| SWEDEN 6 1/8 98 | 300 | 92½ | 92½ | +⅛ | 7.70 |
| WORLD BANK 0 15 | 2000 | 20¾ | 20¾ | | 6.78 |
| WORLD BANK 5 3/4 96 | 300 | 92¾ | 92¾ | | 7.91 |
| WORLD BANK 7 1/8 95 | 500 | 98¾ | 98¾ | +⅛ | 7.76 |

| SWISS FRANC STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| ASIAN DEV BANK 6 10 | 100 | 93 | 94 | | 6.66 |
| AUSTRIA 4 5/8 98 | 100 | 90¾ | 91½ | -⅛ | 6.53 |
| CHUBU ELEC POWER 6 3/4 01 | 300 | 100 | 100¼ | +⅛ | 6.74 |
| COUNCIL EUROPE 4 3/4 98 | 250 | 89¾ | 90 | -⅛ | 6.93 |
| EEC 5 1/2 00 | 100 | 91 | 92 | | 6.89 |
| EIB 6 1/2 98 | 600 | 100¼ | 100¾ | | 6.44 |
| ELEC DE FRANCE 7 1/4 06 | 100 | 104 | 104½ | +⅛ | 6.80 |
| FINLAND 5 3/8 95 | 150 | 95 | 95¼ | +⅛ | 6.92 |
| GENERAL MOTORS 7 1/2 95 | 100 | 99 | 100 | -1¼ | 7.85 |
| JAPAN DEV BK 5 1/2 94 | 100 | 98 | 98¼ | | 6.58 |
| KOBE 6 3/8 01 | 240 | 97¾ | 98¼ | +¼ | 6.70 |
| NEW ZEALAND 4 7/8 99 | 200 | 87 | 88 | | 7.31 |
| QUEBEC HYDRO 5 08 | 100 | 78½ | 79 | +½ | 7.31 |
| WORLD BANK 5 03 | 150 | 85½ | 86 | | 6.86 |
| WORLD BANK 7 01 | 600 | 103¼ | 103¾ | +⅛ | 6.51 |

| YEN STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| AUSTRIA 4 3/4 94 | 30000 | 99½ | 99¾ | +⅛ | 5.09 |
| CREDIT FONCIER 5 1/4 94 | 20000 | 99½ | 100 | +⅛ | 5.43 |
| DENMARK 7 95 | 40000 | 105 | 105¼ | +⅛ | 5.16 |
| EIB 4 5/8 94 | 40000 | 99½ | 99¾ | +⅛ | 4.85 |
| ELEC DE FRANCE 5 5/8 96 | 20000 | 100¼ | 101¼ | +⅛ | 5.43 |
| FINLAND 6 3/4 96 | 50000 | 104¼ | 104½ | +⅛ | 5.60 |
| INTER AMER DEV 7 1/4 00 | 30000 | 110¾ | 111 | +⅛ | 5.59 |
| KANSAI ELEC PWR 4 5/8 94 | 60000 | 98¾ | 98¾ | +⅛ | 5.28 |
| NIPPON TEL & TEL 5 7/8 96 | 50000 | 102¾ | 102¾ | +⅛ | 5.34 |
| NORWAY 5 1/8 95 | 50000 | 99¾ | 100¼ | +⅛ | 5.16 |
| SNCF 6 3/4 00 | 30000 | 107¾ | 108¼ | +⅛ | 5.51 |
| SWEDEN 5 5/8 95 | 20000 | 100¾ | 101¼ | +⅛ | 5.42 |
| WORLD BANK 6 3/4 00 | 50000 | 108¼ | 108½ | +⅛ | 5.46 |

| OTHER STRAIGHTS | Issued | Bid | Offer | Chg. day | Yield |
|---|---|---|---|---|---|
| BAYERISCHE VEREINS INT 7 94 LFr | 600 | 94 | 95 | | 9.81 |
| COPENHAGEN TEL 8 5/8 96 LFr | 600 | 98¾ | 99¾ | | 9.21 |
| WORLD BANK 8 96 LFr | 1000 | 96¾ | 97¾ | | 9.01 |
| UNILEVER 9 00 Fl | 500 | 104¾ | 105¼ | | 8.20 |
| ALBERTA PROVINCE 10 5/8 96 C$ | 500 | 105¾ | 106¼ | +⅛ | 8.83 |
| BELL CANADA 10 5/8 99 C$ | 150 | 106¼ | 106¾ | +⅛ | 9.38 |
| BRITISH COLUMBIA 10 96 C$ | 500 | 103¾ | 104¼ | +⅛ | 8.86 |
| EIB 10 1/8 98 C$ | 130 | 105¾ | 106¼ | +⅛ | 8.80 |
| ELEC DE FRANCE 9 3/4 99 C$ | 275 | 103¾ | 104¼ | +⅛ | 9.01 |
| FORD CREDIT CANADA 10 94 C$ | 100 | 101¾ | 102¼ | +⅛ | 9.14 |
| GEN ELEC CAPITAL 10 96 C$ | 300 | 103¼ | 104 | +⅛ | 8.97 |
| KFW INT FIN 10 01 C$ | 400 | 105¼ | 105¾ | +⅛ | 9.14 |
| NIPPON TEL & TEL 10 1/4 94 C$ | 200 | 105¼ | 106¼ | +⅛ | 9.14 |
| ONTARIO HYDRO 10 7/8 99 C$ | 500 | 107¼ | 107¾ | +⅛ | 9.38 |
| OSTER KONTROLLBANK 10 1/4 99 C$ | 150 | 106 | 106½ | +⅛ | 9.09 |
| QUEBEC PROV 10 1/2 98 C$ | 200 | 105¼ | 105¾ | +⅛ | 9.39 |
| BELGIUM 9 1/8 96 Ecu | 1250 | 101¾ | 102 | +⅛ | 8.55 |
| CREDIT LYONNAIS 9 96 Ecu | 125 | 97¾ | 98¼ | +⅛ | 9.72 |
| DENMARK 7 5/8 98 Ecu | 250 | 93¾ | 94¼ | | 9.38 |
| EEC 7 5/8 94 Ecu | 200 | 97¾ | 98¼ | | 8.78 |
| EIB 10 97 Ecu | 1125 | 106¼ | 106¾ | | 8.36 |
| FERRO DEL STAT 10 1/8 98 Ecu | 500 | 106¼ | 106¾ | | 8.65 |
| ITALY 10 3/4 00 Ecu | 1000 | 112¼ | 112¾ | | 8.56 |
| UNITED KINGDOM 9 1/8 01 Ecu | 2750 | 104¾ | 105 | | 8.33 |
| BP AMERICA 12 1/4 96 A$ | 100 | 106¾ | 107¼ | +⅛ | 10.18 |
| COMM BK AUSTRALIA 13 3/4 99 A$ | 100 | 115 | 115½ | +⅛ | 10.74 |
| EKSPORTFINANS 12 3/8 95 A$ | 75 | 110¼ | 110¾ | | 8.67 |
| EUROFIMA 14 5/8 94 A$ | 75 | 110¼ | 111 | | 9.24 |
| MCDONALDS CANADA 15 95 A$ | 100 | 113 | 113½ | | 10.23 |
| NAT AUSTRALIA BANK 14 3/4 94 A$ | 100 | 109¾ | 110¼ | | 9.35 |
| STATE BK NSW 14 1/4 99 A$ | 100 | 116¼ | 116¾ | | 11.00 |
| UNILEVER AUSTRALIA 12 98 A$ | 150 | 107¼ | 107¾ | | 10.34 |
| VOLKSWAGEN INTL 15 94 A$ | 100 | 109¾ | 110¼ | | 9.85 |
| ABBEY NATL TREAS 13 3/8 95 £ | 100 | 107¾ | 108 | | 10.34 |
| ALLIANCE & LEICS 11 3/8 97 £ | 100 | 102¼ | 102¾ | | 10.73 |
| BRITISH GAS 12 3/4 95 £ | 300 | 106¾ | 107 | +⅛ | 10.10 |
| BRITISH LAND 12 1/2 16 £ | 150 | 105¼ | 106 | +⅛ | 12.15 |
| DEUTSCHE BK FIN 11 94 £ | 225 | 102 | 102¾ | +⅛ | 9.83 |
| EIB 10 97 £ | 536.5 | 100¾ | 101¼ | | 9.88 |
| FINLAND 10 1/8 97 £ | 100 | 100¾ | 101¼ | | 9.92 |
| ITALY 10 1/2 14 £ | 400 | 102¼ | 102¾ | +⅛ | 10.24 |
| LAND SECS 9 1/2 07 £ | 200 | 88¼ | 88¾ | +⅛ | 11.10 |
| NORWAY 10 1/2 94 £ | 200 | 101¼ | 101¾ | | 9.85 |
| ONTARIO 11 1/8 01 £ | 100 | 104¼ | 104¾ | +⅛ | 10.37 |
| SEVERN TRENT 11 1/2 99 £ | 150 | 103¾ | 104¼ | +⅛ | 10.72 |
| SKANDINAVISKA ENSK 13 1/8 95 £ | 150 | 106¼ | 106¾ | +⅛ | 10.62 |
| TOKYO ELEC POWER 11 01 £ | 150 | 105 | 105¾ | +⅛ | 10.13 |
| WORLD BANK 11 1/4 95 £ | 100 | 103¼ | 103¾ | | 9.96 |
| ABBEY NATIONAL 0 96 NZ$ | 100 | 65¼ | 66¼ | | 9.55 |
| BNP 12 96 NZ$ | 50 | 109 | 110 | -⅛ | 9.30 |
| CEPME 10 95 FFr | 2000 | 103¼ | 103¾ | | 8.86 |
| ELF-AQUITAINE 9 99 FFr | 600 | 101¾ | 102 | -⅛ | 8.70 |
| EURATOM 7 5/8 98 FFr | 500 | 94¾ | 95¼ | | 8.85 |

| FLOATING RATE NOTES | Issued | Bid | Offer | C.cpn |
|---|---|---|---|---|
| ALLIANCE & LEICS 0.08 94 £ | 300 | 99.48 | 99.58 | 10.7675 |
| BANCO ROMA 0.08 03 | 200 | 92.00 | 93.00 | 4.4050 |
| BELGIUM 1/16 97 DM | 500 | 99.97 | 100.07 | 9.5000 |
| BFCE -0.02 98 | 350 | 100.27 | 100.37 | 4.9175 |
| BNP 05 | 300 | 96.81 | 97.31 | 5.5625 |
| BRITANNIA 1/10 96 £ | 150 | 99.08 | 99.28 | 10.7875 |
| CCCE 06 ECU | 200 | 99.91 | 100.01 | 10.1563 |
| CITIZENS FED 0.15 96 | 200 | 99.57 | 99.95 | 5.9625 |
| CREDIT FONCIER -1/4 98 | 300 | 100.26 | 100.36 | 5.3438 |
| DENMARK -1/8 96 | 1000 | 99.73 | 99.83 | 3.6875 |
| DRESDNER FINANCE 1/32 98 DM | 1000 | 99.96 | 100.06 | 9.5938 |
| ELEC DE FRANCE 1/8 99 | 400 | 101.50 | 102.50 | 6.0625 |
| FERRO DEL STAT 94 | 200 | 100.63 | 100.88 | 5.9375 |
| HALIFAX 1/8 94 £ | 200 | 99.95 | 100.05 | 10.5375 |
| IRELAND 98 | 300 | 99.58 | 99.68 | 4.4600 |
| ITALY 00 | 500 | 100.89 | 100.99 | 4.5800 |
| LEEDS PERMANENT 1/8 96 £ | 300 | 99.32 | 99.46 | 11.0000 |
| LLOYDS BANK 1/10 PERP S3 | 600 | 79.50 | 81.50 | 6.0375 |
| MITSUI FIN ASIA 1/8 96 | 100 | 100.01 | 100.11 | 5.9375 |
| NAT WEST FIN 3/16 05 | 400 | 92.75 | 93.75 | 5.5000 |
| RENFE 98 | 500 | 100.11 | 100.21 | 5.0000 |
| SOCIETE GENERALE 96 | 300 | 99.90 | 100.00 | [illegible] |
| STATE BK VICTORIA 0.05 99 | 125 | 98.56 | 98.81 | 4.3625 |
| UNITED KINGDOM -1/8 96 | 4000 | 100.05 | 100.08 | 4.2500 |
| YORKSHIRE BS 1/10 94 £ | 165 | 99.57 | 99.67 | 10.3063 |

| CONVERTIBLE BONDS | Issued | Conv. price | Bid | Offer | Prem. |
|---|---|---|---|---|---|
| BURTON GROUP 4 3/4 01 £ | 110 | 2.38 | 127 | 128¼ | |
| CHUBB CAPITAL 6 98 | 250 | 86 | 105¼ | 106¼ | |
| DAI-ICHI KANGYO 3 7/8 04 | 500 | 3251.8 | 87¼ | 88¼ | +29.15 |
| EASTMAN KODAK 6 3/8 01 | 300 | 60.67 | 105¼ | 106¼ | +86.19 |
| GOLD KALGOORLIE 7 1/2 00 | 65 | 1.0254 | 84¼ | 85¼ | +10.35 |
| HANSON 9 1/2 06 £ | 500 | 2.5875 | 99¾ | 100¾ | +49.47 |
| HAWLEY 6 02 PREF | 400 | 19.1 | 84¾ | 87 | |
| HILLSDOWN 4 1/2 02 £ | 150 | 3.97 | 116¼ | 117¼ | |
| LAND SECS 6 3/4 02 £ | 84 | 6.72 | 85¼ | [illegible] | [illegible] |
| LASMO 7 3/4 05 £ | 90 | 5.64 | 76¼ | 77¼ | +13.12 |
| MITSUI BANK 2 3/8 03 | 200 | 2357.1 | 83¼ | 83¾ | +15.56 |
| MOUNT ISA FIN 6 1/2 97 | 100 | 2.283 | 94¾ | 95¾ | +39.04 |
| OGDEN 6 02 | 85 | 39.077 | 83¾ | 84¾ | +35.84 |
| SMITH & NEPHEW 4 02 £ | 90 | 1.775 | 120¾ | 121¾ | +43.58 |
| SUMITOMO BANK 3 1/8 04 | 300 | 3606.9 | 66¼ | 67¼ | +23.77 |
| TEXAS INSTRUMENTS 2 3/4 02 | 300 | 82¼ | 89¾ | 90¾ | |
| THORN EMI 5 3/4 04 £ | 203 | 7.43 | 121 | 122 | +9.27 |

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

## INTERNATIONAL CAPITAL MARKETS

# EIB raises Ecu500m in issue of floating-rate notes

By Tracy Corrigan

THE European Investment Bank yesterday raised Ecu500m in floating-rate notes, with its third issue structured as a block trade – that is, with lower fees and without an underwriting group – so far this year.

### INTERNATIONAL BONDS

The deal was considered aggressively-priced, at a discounted margin of 58 basis points below the London interbank offered rate (Libor). In addition, the EIB once again squeezed the fees for both the three lead underwriters and the small selling group.

However, EIB paper is exempt from withholding tax for Italian investors, so the demand for the offering was concentrated in Italy. Most dealers said the issue would have to rely almost solely on Italian placement. "The Italian effort will have to be very strong, because it takes a story to sell paper at this level," one syndicate manager said.

An outstanding issue of nine-year EIB floating-rate notes is currently trading at about 51 basis points under Libor. However, that paper is trading at about a 2-point premium to par, a deterrent for some investors.

There were also some reports of demand from money-market funds. Short-term rates in the Ecu market are currently high compared with other markets, and with the rest of the Ecu yield curve. Six-month Libor currently stands at about 10⅞ per cent, while the UK's recently issued Treasury notes are yielding about 8½ per cent.

Also in the Ecu market, KFW International Finance launched a successful Ecu250m five-year deal, arranged by Deutsche Bank. The deal was considered fairly-priced, and took away any bitter taste left by the aggressive pricing of KFW's last deal, a $300m 15-year deal launched early this month. The Ecu deal met strong demand from German and Swiss retail investment, as well as from institutional players. The deal closed at 99.96 bid, the level of its initial fixed reoffer price.

Traders speculated the EIB's FFr3bn 10-year offering of fixed-rate bonds, expected to be launched today, would also be structured as a block trade.

Sources at the Bank of Italy denied reports that Italy is considering launching a FFr7 to FFr10bn offering of long-dated bonds, and said Italy would not be tapping any offshore market in the "foreseeable future". But, banks continue to present the Italian authorities with proposals for long-dated transactions in both French francs and Ecu.

In the dollar sector, Telecommunicacoes de Sao Paolo (Telesp) launched a $100m three-year deal, puttable after two years, via Banque Indosuez. The deal met strong demand, particularly from retail investors, encouraged by a hefty 650 basis point yield spread (to the put option). Telesp is an operating subsidiary of Telebras, the Brazilian telecommunications utility, which paved the way with a deal last year.

Also in the dollar sector, two fixed/floating-rate offerings for Mitsubishi Bank and Long-Term Credit Bank were targeted at Japanese investors.

The first phase in the privatisation of the Portuguese state oil company Petrogal was announced yesterday, AP-DJ reports.

Some 24m shares will be sold in the first phase sale, 19m from a new issue and 5m from a sale of government held stock.

French oil company Total, Italy's Agip Petroli and Du Pont de Nemours of the US are expected to submit bids in association with local investors.

Shares offered in the first phase will have a base price of Es1,700 escudos, or about $12.4 a share. Government sources said the first phase sale was expected to raise at least Es40.8bn.

## NEW INTERNATIONAL BOND ISSUES

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees | Book runner |
|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | |
| Long Term Credit Bk.Finance‡† | 120 | (b) | 101.55 | 2002 | - | LTCB Intl. |
| T'communicacoes d.S. Paolo(c)† | 100 | 10 | 95.44 | 1995 | (c) | Banque Indosuez |
| Optec Dai-ichi Denko(a)# | 100 | 3⅛ | 100 | 1996 | 2¼/1½ | Yamaichi Int. (Europe) |
| MBE Finance Nv(d)‡† | 50 | (d) | 102 | 2002 | 2/1⅛ | Mits'shi Finance Intl. |
| **AUSTRALIAN DOLLARS** | | | | | | |
| BNP(a)† | 100 | 10½ | 101.7 | 1999 | 2/1½ | Hambros Bank |
| **ECU** | | | | | | |
| European Investment Bk.‡† | 500 | (e) | (e) | 2002 | - | UBS |
| KFW Intl.Finance(a)† | 250 | 8½ | 101.585 | 1997 | 1⅞/1¼ | Deutsche Bk.Cap.Mkts. |
| City of Gothenburg(f)† | 50 | 9⅛ | 103.125 | 1997 | 1⅞/1¼ | SBC |
| **YEN** | | | | | | |
| Canon Inc(a)† | 20bn | 5.85 | 101½ | 1997 | - | Daiwa Europe |
| Canon Inc(a)† | 20bn | 5.8 | 101¼ | 1999 | - | Yamaichi Intl.(Europe) |
| **SWEDISH KRONOR** | | | | | | |
| Deutsche Bk.Finance(g)† | 800 | 10¼ | 101.5 | 1997 | 1⅞/1¼ | Deutsche Bk.Cap.Mkts. |

**Private placement. §Convertible. #With equity warrants. ‡Floating rate note. †Final terms. a) Non-callable. b) Coupon pays for first 3 years 6 month Libor plus 50bp.Then pays 9⅛%. call after 3 years at 100%. c) Coupon payable semi-annually. Put option after 2 years at 97.57.Fees ⅝ selling. d) Callable 21/2/1995 at par. Coupon pays for first 3 years 6 month Libor plus 60bp then pays 9% thereafter. e) Coupon pays 6 month Libor minus ⅛%. Fixed reoffer at 99.725. Call option on 18/2/93 then annually thereafter at 100. f) Fungible bringing issue size to 150m Ecu. Non-callable. g) Amount increased from 500m. Non-callable.

# Securities industry capital rules move closer

By Richard Waters

INTERNATIONAL capital rules for the securities industry were agreed in principle yesterday as bank and securities regulators met for the first time to seek a common worldwide framework.

If adopted, the rules would mirror the Basle risk-weighted capital standards for banks, which were agreed in 1988 and come into force this year.

After a meeting in Geneva, the regulators agreed a common approach to the issue, although differences remain about the precise level of capital securities businesses – if those owned by banks, or non-bank firms – would have to provide to support their market exposures.

In a joint statement, Mr Richard Breeden, chairman of the technical committee of the International Organisation of Securities Commissions (Iosco) and Mr Gerald Corrigan, chairman of the Basle Committee on Banking Supervision, said differences between current capital rules applied to the securities and banking industries "create the risk of distortion of trading patterns and significantly varying levels of protection. . .for firms from different countries against both local and global market volatility."

Regulators failed to reach full agreement on the two most important outstanding issues – the ratio of subordinated debt to equity that can be applied for regulatory purposes and the amount of capital needed to back equity risks.

On the first, there was general agreement to a ratio of 2.5:1 – a level sought by securities commissioners in the UK, US and elsewhere. Some banking supervisors continued to express concern at this level. There was also "general consensus" on the equity risk question, though without disclosing figures. It is understood the agreement was for firms to provide capital equal to 8 per cent of their net positions and 4 per cent of their gross positions – against the wishes of securities regulators, who had pushed for a lower percentage of gross positions.

# An upheaval waiting to happen

**Richard Waters** on the London Stock Exchange's delayed reforms

TWO years ago, the London Stock Exchange – then called the International Stock Exchange – seemed on the point of rapid transformation.

Under new management, and with a new strategy agreed in outline, it seemed set for an upheaval to parallel the Big Bang reforms that had reshaped the City in 1986.

Two years on, nothing has happened – and the securities companies which are the exchange's biggest customers are getting impatient. The exchange seems no closer to achieving its original plan: to split its markets into two, creating a national, retail market for the UK and a wholesale one for all European stocks. Frustration has begun to turn to anger.

An executive at one of the City's top securities companies, who has been deeply involved in the stock exchange's work on its new strategy, says: "I just can't understand why there isn't any progress. We've done all the hard work – why aren't they putting it out?"

Another, who also declined to be named, added: "The strategy was accepted conceptually by the whole market place 18 months ago. Mr Peter Rawlins [the exchange's chief executive] has let this one slip, and has lost credibility because of it."

One person who is prepared to speak openly is Mr David Jones, managing director of Sharelink, a telephone-based retail broker which regularly handles more than 10 per cent of the trades in the UK market. Mr Jones's proposals for a new retail stock market in the UK, separate from the stock exchange, were previously cold-shouldered by the exchange. "They led me and everybody else to believe that they would not only do it more effectively themselves, but also that they would do it quicker. Yet here we are, two years later, with no progress."

What has added to the frustration of these and other financial firms is that their contribution to the redevelopment of the exchange was completed long ago. Two high-level committees of brokers, set up to advise the exchange's staff, finished their work last autumn, and expected a quick response from the authorities.

Tony Andrews

Peter Rawlings: Exchange on the point of transformation

Since then, there has been a deathly silence.

Three possible reasons are put forward for the delays. One is that upheavals among the exchange's staff has held back development and that the work will now be completed by a team of outside consultants from Andersen Consultants (Mr Rawlins is an Andersen-trained accountant). A fortnight ago, the exchange revealed that Andersen partners would henceforth hold key line management positions in the exchange, effectively providing a middle-management below Mr Rawlins and his fellow directors.

That arrival of Andersen has awakened fears in the industry that the exchange's redevelopment has now fallen into the hands of technocrats, and previously-agreed changes will be subject to amendment.

Mr Peter Hogarth, the exchange's director for trading markets (its secondary market activities) says such fears are misplaced.

"They [Andersen] are not responsible for the business definition or requirements at all," he said. "They are there to implement the answers, not to give them."

He also played down fears that the arrival of Andersen signals an expensive, long-term overhaul of the exchange's decrepit systems. All sides agree a new technological base for the market needs to be created, but the market's users do not want an expensive refit.

The second reason put forward for the delays is that the exchange has failed completely to disentangle the two segments of its new strategy, and so has become bogged down in finding ways for the retail and wholesale markets to stand side-by-side.

"We need two completely separate structures," said Mr Jones. "They need to be designed, managed and run separately, from separate budgets."

A third possible reason has been the difficulty of overcoming entrenched interests in the market. A good example is the position of market makers in the UK market (as opposed to Seaq International, London's successful international share market). At present, market makers in the UK market benefit from privileges such as the exclusive right to borrow stock to meet settlement obligations – something that gives them a considerable advantage over others. On the other hand, they suffer from the rule to publish details of all trades within 90 minutes. They claim this exposes them to attack from other market-makers before they have a chance to unwind their positions, they claim.

Market-makers on Seaq International find themselves in the opposite position. Trades are not published and there are no stock-borrowing privileges. The question for the exchange has been: how to migrate to a single European market, with UK as well as foreign stocks, without upsetting the market-makers on the one hand, or regulators on the other?

An answer could be close. Discussions with market makers and regulators have intensified recently. On February 27, the exchange's board is (finally) due to be presented with the a proposal.

If all goes as the exchange hopes, that will involve scrapping the trade publication rule for large bargains – a move which has met with resistance from the Office of Fair Trading and the Securities and Investments Board. It will also mean the launch of a limited pilot scheme for a new "matching principle" scheme for trading small, illiquid stocks.

Other changes will then be phased in.

## LONDON MARKET STATISTICS

### FT-ACTUARIES SHARE INDICES

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| EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section) | Wed Jan 29 1992 Index No. | Day's Change % | Est. Earnings Yield% (Max.) | Gross Div. Yield% (Act at (25%) | Est. P/E Ratio (Net) | xd adj. 1992 to date | Tue Jan 28 Index No. | Mon Jan 27 Index No. | Fri Jan 24 Index No. | Year ago (approx) Index No. |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 CAPITAL GOODS (178) | 784.87 | -0.5 | 8.67 | 6.12 | 14.76 | 0.52 | 788.65 | 782.61 | 773.50 | 715.31 |
| 2 Building Materials (23) | 954.60 | -0.5 | 7.29 | 6.52 | 18.57 | 0.44 | 959.50 | 946.46 | 931.56 | 983.03 |
| 3 Contracting, Construction (29) | 862.98 | -0.8 | 9.20 | 8.59 | 15.71 | 0.00 | 869.82 | 867.88 | 859.14 | 1089.95 |
| 4 Electricals (7) | 2465.69 | +0.1 | 10.07 | 6.08 | 12.49 | 0.00 | 2462.96 | 2467.95 | 2453.60 | 1914.10 |
| 5 Electronics (26) | 1748.51 | -0.1 | 10.54 | 4.91 | 12.02 | 1.00 | 1750.85 | 1736.64 | 1724.33 | 1576.30 |
| 6 Engineering-Aerospace (8) | 331.06 | -1.1 | 16.31 | 7.85 | 7.46 | 0.74 | 334.64 | 323.22 | 326.34 | 389.38 |
| 7 Engineering-General (43) | 492.88 | +0.2 | 9.65 | 5.00 | 12.78 | 0.92 | 491.72 | 486.19 | 483.68 | 348.34 |
| 8 Metals and Metal Forming (10) | 331.50 | +0.2 | 2.11 | 10.48 | - | 0.00 | 330.93 | 332.93 | 325.83 | [illegible] |
| 9 Motors (13) | 297.90 | -1.3 | 8.57 | 8.00 | 15.51 | 0.00 | 301.97 | 300.53 | 294.43 | 279.36 |
| 10 Other Industrial Materials (19) | 1607.01 | -0.7 | 7.49 | 5.10 | 15.89 | 0.69 | 1618.83 | 1615.94 | 1589.72 | 1250.00 |
| 21 CONSUMER GROUP (188) | 1649.42 | -0.1 | 7.06 | 3.33 | 17.44 | 1.80 | 1651.70 | 1642.53 | 1621.84 | 1225.75 |
| 22 Brewers and Distillers (23) | 2071.30 | ...... | 8.04 | 3.42 | 15.09 | 7.92 | 2071.71 | 2053.06 | 2045.26 | 1546.68 |
| 25 Food Manufacturing (18) | 1244.15 | +0.2 | 8.67 | 4.08 | 14.26 | 2.11 | 1241.65 | 1226.67 | 1216.42 | 1054.74 |
| 26 Food Retailing (17) | 2534.26 | +0.2 | 8.72 | 3.27 | 14.90 | 0.39 | 2527.99 | 2511.41 | 2453.50 | 2371.21 |
| 27 Health and Household (24) | 4495.71 | -0.1 | 5.05 | 2.17 | 22.69 | 0.88 | 4500.08 | 4482.92 | 4394.16 | 2610.98 |
| 29 Hotels and Leisure (24) | 1246.33 | -1.1 | 7.72 | 5.38 | 16.11 | 0.07 | 1260.67 | 1260.53 | 1256.57 | 1121.52 |
| 30 Media (23) | 1482.60 | -0.1 | 6.60 | 3.62 | 19.05 | 1.22 | 1484.77 | 1484.52 | 1469.59 | 1207.63 |
| 31 Packaging, Paper & Printing (17) | 756.23 | +0.2 | 7.00 | 4.39 | 17.31 | 0.22 | 755.04 | 750.05 | 749.08 | 508.00 |
| 34 Stores (32) | 1016.80 | -0.5 | 7.27 | 3.55 | 18.22 | 0.23 | 1022.20 | 1010.06 | 1002.59 | 785.07 |
| 35 Textiles (10) | 606.97 | -0.4 | 7.57 | 5.10 | 16.86 | 0.00 | 609.12 | 610.89 | 608.99 | 399.15 |
| 40 OTHER GROUPS (115) | 1205.90 | -0.3 | 10.00 | 5.50 | 12.62 | 6.09 | 1208.95 | 1204.53 | 1189.62 | 1025.76 |
| 41 Business Services (16) | 1363.08 | -0.9 | 7.36 | 4.81 | 17.28 | 0.00 | 1375.89 | 1394.27 | 1371.86 | 941.39 |
| 42 Chemicals (21) | 1472.18 | -0.2 | 6.86 | 4.97 | 18.02 | 0.44 | 1475.51 | 1472.75 | 1452.83 | 1082.97 |
| 43 Conglomerates (11) | 1271.71 | -2.0 | 11.41 | 7.97 | 10.67 | 3.11 | 1297.89 | 1319.72 | 1305.80 | 1309.20 |
| 44 Transport (14) | 2406.85 | +0.2 | 5.33 | 4.70 | 24.72 | 2.46 | 2402.96 | 2397.04 | 2392.29 | 1882.14 |
| 45 Electricity (16) | 1204.50 | +0.7 | 15.06 | 6.17 | 8.64 | 15.30 | 1195.66 | 1168.75 | 1150.10 | 1070.68 |
| 46 Telephone Networks (4) | 1378.42 | -0.5 | 11.38 | 4.55 | 11.47 | 15.96 | 1385.25 | 1374.41 | 1356.38 | 1176.12 |
| 47 Water (10) | 2361.80 | +1.2 | 18.07 | 6.73 | 6.10 | 0.00 | 2334.78 | 2308.76 | 2253.13 | 2376.34 |
| 48 Miscellaneous (23) | 1820.39 | +0.1 | 5.46 | 5.37 | 25.21 | 0.95 | 1818.74 | 1814.33 | 1798.86 | 1590.29 |
| 49 INDUSTRIAL GROUP (481) | 1290.40 | -0.2 | 8.24 | 4.49 | 15.18 | 2.88 | 1293.42 | 1286.51 | 1270.61 | 1039.83 |
| 51 Oil & Gas (19) | 2173.61 | -0.1 | 11.77 | 6.45 | 11.24 | 8.11 | 2176.19 | 2168.33 | 2161.09 | 2152.33 |
| 59 500 SHARE INDEX (500) | 1369.89 | -0.2 | 8.64 | 4.71 | 14.61 | 3.38 | 1372.92 | 1365.86 | 1350.33 | 1132.76 |
| 61 FINANCIAL GROUP (87) | 728.89 | -0.3 | - | 6.37 | - | 0.13 | 730.87 | 728.37 | 722.14 | 711.32 |
| 62 Banks (9) | 873.66 | -0.4 | 4.40 | 6.08 | 46.25 | 0.00 | 877.33 | 872.42 | 868.17 | 759.26 |
| 65 Insurance (Life) (6) | 1429.45 | +1.1 | - | 5.98 | - | 0.00 | 1414.23 | 1430.51 | 1413.93 | 1309.46 |
| 66 Insurance (Composite) (7) | 514.81 | -0.4 | - | 8.47 | - | 0.00 | 516.90 | 514.00 | 505.18 | 619.17 |
| 67 Insurance (Brokers) (10) | 1004.13 | -2.1 | 7.70 | 6.65 | 17.08 | 1.00 | 1025.53 | 1031.35 | 1017.20 | 989.47 |
| 68 Merchant Banks (7) | 466.85 | +0.1 | - | 4.59 | - | 0.00 | 466.19 | 462.20 | 461.23 | 341.98 |
| 69 Property (34) | 796.11 | -0.4 | 6.89 | 5.69 | 20.66 | 0.44 | 799.30 | 792.74 | 783.35 | 951.71 |
| 70 Other Financial (14) | 239.72 | ...... | 11.13 | 7.45 | 11.34 | 0.00 | 239.64 | 238.26 | 239.01 | 241.55 |
| 71 Investment Trusts (68) | 1185.27 | -0.8 | - | 3.68 | - | 1.66 | 1194.98 | 1186.94 | 1173.33 | 982.52 |
| 99 ALL-SHARE INDEX (655) | 1217.03 | -0.2 | - | 4.88 | - | 2.56 | 1219.99 | 1213.90 | 1200.51 | 1028.19 |

| | Index No. | Day's Change | Day's High (a) | Day's Low (b) | Jan 28 | Jan 27 | Jan 24 | Jan 23 | Jan 22 | Year ago |
|---|---|---|---|---|---|---|---|---|---|---|
| FT-SE 100 SHARE INDEX♦ | 2546.5 | -5.5 | 2552.6 | 2535.1 | 2552.0 | 2539.9 | 2510.4 | 2525.3 | 2522.0 | 2152.6 |

### FIXED INTEREST

| PRICE INDICES | Wed Jan 29 | Day's change % | Tue Jan 28 | Accrued interest | xd adj. 1992 to date |
|---|---|---|---|---|---|
| **British Government** | | | | | |
| 1 Up to 5 years (26) | 122.11 | +0.05 | 122.05 | 1.77 | 1.07 |
| 2 5-15 years (26) | 136.26 | +0.07 | 136.16 | 1.76 | 1.78 |
| 3 Over 15 years (8) | 147.52 | +0.10 | 147.37 | 2.54 | 0.00 |
| 4 Irredeemables (6) | 162.82 | +0.20 | 162.49 | 2.40 | 0.00 |
| 5 All stocks (66) | 134.35 | +0.07 | 134.25 | 1.87 | 1.37 |
| **Index-Linked** | | | | | |
| 6 Up to 5 years (2) | 169.01 | ........ | 169.00 | 1.21 | 0.00 |
| 7 Over 5 years (9) | 149.48 | +0.03 | 149.43 | 0.47 | 0.63 |
| 8 All stocks (11) | 151.04 | +0.03 | 150.99 | 0.57 | 0.54 |
| 9 Debs & Loans (62) | 117.67 | +0.03 | 117.64 | 3.05 | 0.09 |

| AVERAGE GROSS REDEMPTION YIELDS | | Wed Jan 29 | Tue Jan 28 | Year ago (approx.) |
|---|---|---|---|---|
| **British Government** | | | | |
| 1 Low | 5 years | 8.70 | 8.70 | 9.82 |
| 2 Coupons | 15 years | 9.20 | 9.21 | 9.84 |
| 3 (0%-7¾%) | 20 years | 9.20 | 9.21 | 9.85 |
| 4 Medium | 5 years | 9.50 | 9.51 | 10.62 |
| 5 Coupons | 15 years | 9.29 | 9.30 | 10.16 |
| 6 (8%-10¾%) | 20 years | 9.23 | 9.24 | 10.08 |
| 7 High | 5 years | 9.74 | 9.75 | 10.75 |
| 8 Coupons | 15 years | 9.37 | 9.38 | 10.29 |
| 9 (11%-) | 20 years | 9.29 | 9.30 | 10.18 |
| 10 Irredeemables | | 9.41 | 9.43 | 10.11 |
| **Index-Linked** | | | | |
| 11 Inflation rate 5% | Up to 5yrs. | 3.88 | 3.88 | 3.87 |
| 12 Inflation rate 5% | Over 5 yrs. | 4.28 | 4.28 | 4.14 |
| 13 Inflation rate 10% | Up to 5 yrs. | 3.22 | 3.21 | 2.49 |
| 14 Inflation rate 10% | Over 5 yrs. | 4.10 | 4.10 | 3.96 |
| 15 Debs & | 5 years | 11.04 | 11.04 | 12.48 |
| 16 Loans | 15 years | 10.80 | 10.80 | 12.17 |
| 17 | 25 years | 10.62 | 10.62 | 11.87 |

♦Opening index 2552.6; 9 am 2541.1; 10 am 2538.6; 11 am 2544.8; Noon 2538.8; 1 pm 2536.3; 2 pm 2535.7; 2.30 pm 2535.7; 3 pm 2537.8; 4.10 pm 2545.4; (a) 8.30am (b) 2.43pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2323.

### RISES AND FALLS YESTERDAY

| | Rises | Falls | Same |
|---|---|---|---|
| British Funds | 46 | 1 | 32 |
| Other Fixed Interest | 0 | 5 | 12 |
| Commercial, Industrial | 240 | 299 | 941 |
| Financial & Property | 91 | 157 | 545 |
| Oil & Gas | 15 | 29 | 47 |
| Plantations | 0 | 0 | 9 |
| Mines | 14 | 64 | 74 |
| Others | 20 | 82 | 32 |
| Totals | 426 | 637 | 1,692 |

### LONDON RECENT ISSUES

EQUITIES

| Issue Price | Amount Paid up | Latest Renunc. Date | 1991/92 High | 1991/92 Low | Stock | Closing Price | + or - | Net Div | Times Cov'd | Gross Yield | P/E Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | F.P. | - | 71 | 49 | BTR Warrants 1995/96 | 65 | -4 | - | - | - | - |
| - | F.P. | - | 120 | 105 | Baillie Gifford Jap Wrrts | 108 | | - | - | - | - |
| - | F.P. | - | 425 | 405 | Bristol Water Non-Vtg £1 | 405 | | - | - | - | - |
| *335 | 110 | - | 126½ | 104½ | British Telecom New | 117 | -2 | 13.3 | 2.6 | 5.2 | 10.0 |
| 140 | F.P. | - | 157 | 140 | Burn Stewart Dist | 147 | | R6.0 | 2.3 | 4.5 | 11.4 |
| - | F.P. | - | 2½ | 2 | Butte Mining Wrnts | 2 | | - | - | - | - |
| - | F.P. | - | 75 | 65 | Capital Industries 1p | 63 | | - | - | - | - |
| † | F.P. | - | 310 | 218 | Eurotunnel '91 Wrnts | 290 | -5 | - | - | - | - |
| 95 | F.P. | - | 101 | 99 | Exeter Prfd. Capital | 99 | | P0.6 | - | 0.8 | - |
| - | F.P. | - | 33 | 23 | Fleming Japanese Wrrnts | 30 | | - | - | - | - |
| ♦ | F.P. | - | 25¼ | 24½ | Hong Kong Zero Dv Pf | 25¼ | +¼ | - | - | - | - |
| £10¼ | F.P. | - | £10⅝ | £10⅛ | Latin Am Inc & Appr. 1c | £10⅝ | | - | - | - | - |
| - | F.P. | - | 4 | 3 | Lowe (R) Wrnts | 3 | | - | - | - | - |
| - | F.P. | - | 6 | ¼ | Maltrust Warrants | 6 | | - | - | - | - |
| - | F.P. | - | 103 | 102 | Riv & Merc Tst Inc12 1/2p | 103 | | N9.2 | - | 11.9 | - |
| - | F.P. | - | 118½ | 117 | Do. Stepd Prf 12 1/2p | 118½ | | N5.6 | - | 6.3 | - |
| 60 | F.P. | - | 59 | 53 | §Seafield Resources | 55 | +1 | - | - | - | - |
| 50 | F.P. | - | 33 | 30 | §[illegible] of Cornhill 5p | 30 | | - | - | - | 9.3 |
| - | F.P. | - | 5½ | 3½ | Wills Group Wrnts | 5½ | | - | - | - | - |

### FIXED INTEREST STOCKS

| Issue Price £ | Amount Paid up | Latest Renunc. Date | 1991/92 High | 1991/92 Low | Stock | Closing Price £ | + or - |
|---|---|---|---|---|---|---|---|
| 10p | F.P. | - | 10p | 8p | Butte Mining 10pc (Net) Cv Prf 1994 | 10p | |
| 100 | F.P. | - | 107½ | 98½ | Camborne Inds. 10¼pc Rd. Deb. 2001 | 105½ | |
| 100p | F.P. | - | 106p | 100p | Fidelity Euro. Values Equity Ln 2001 | 106p | |
| 105 | F.P. | - | 105 | 98 | Greencore 9.5% Cnv Un Ln Stk 1995 | 100 | |
| 310p | 150p | - | 275p | 187p | Inchcape Non-Int. Bearing Cv Un Ln | 271p | +12 |
| 100p | F.P. | - | 105¼p | 100¼p | NatWest Bank 9pc Prf Series A | 105p | -¼ |

### RIGHTS OFFERS

| Issue Price p | Amount Paid up | Latest Renunc. Date | 1991/92 High | 1991/92 Low | Stock | Closing Price p | + or - |
|---|---|---|---|---|---|---|---|
| 43 | Nil | 6/2 | 18pm | 7pm | Airbreak Leisure 5p | 18pm | +4½ |
| 330 | Nil | 10/3 | 76pm | 45pm | BM Group 10p | 76pm | +20 |
| 220 | Nil | 26/2 | 27pm | 13pm | Beales Hunter 20p | 13pm | |
| 150 | Nil | 11/3 | 24pm | 23pm | Hi-Tec Sports | 24pm | |
| 185 | Nil | 11/3 | 72pm | 68pm | Wheeoe | 71pm | |

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Assumed dividend and yield. g Earnings based on preliminary figures. n Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ♦ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium. * Issue price to private investors. ■ Unit comprising of 5 Ords and 1 Warrant.

### TRADITIONAL OPTIONS

- First Dealings Jan. 20
- Last Dealings Jan. 31
- Last Declarations Apr. 23
- For settlement May 5

*3-month call rate indications are shown on this page.*

Calls in Amber Day, Fisons, Gold Mines of Kalgoorlie, GRE, Ibstock Johnsen, Lep, Lonrho, Y.J. Lovell and Paton. Puts in ADT, Attwoods, Birse, Conroy Petrim. and Powerscreen Intl. Puts and calls in Attwoods.

### LONDON TRADED OPTIONS

| Option | | Calls | Puts |
|---|---|---|---|
| Allied Lyons (*644) | 600 | 64½ [illegible] | [illegible] |
| | 650 | 35 [illegible] | [illegible] |
| ASDA (*35) | 34 | 5 [illegible] | [illegible] |
| | 40 | - [illegible] | [illegible] |
| Brit. Airways (*238) | 220 | 27½ [illegible] | [illegible] |
| | 240 | 13 [illegible] | [illegible] |
| SmKl Beecham A (*918) | 900 | 55½ [illegible] | [illegible] |
| | 950 | 32 [illegible] | [illegible] |
| Boots (*461) | 420 | 53½ [illegible] | [illegible] |
| | 460 | 25 [illegible] | [illegible] |
| B.P. (*290) | 280 | 17 [illegible] | [illegible] |
| | 300 | 7 [illegible] | [illegible] |
| British Steel (*77) | 70 | 10 [illegible] | [illegible] |
| | 80 | 3½ [illegible] | [illegible] |
| Bass (*946) | 900 | 57½ [illegible] | [illegible] |
| | 950 | 23 [illegible] | [illegible] |
| C & Wire (*593) | 500 | 98½ [illegible] | [illegible] |
| | 550 | 57½ [illegible] | [illegible] |
| Courtaulds (*529) | 500 | 47 [illegible] | [illegible] |
| | 550 | 20 [illegible] | [illegible] |
| Com. Union (*457) | 420 | 40½ [illegible] | [illegible] |
| | 460 | 13½ [illegible] | [illegible] |
| Fisons (*382) | 360 | 34 [illegible] | [illegible] |
| | 390 | 20½ [illegible] | [illegible] |
| GKN (*314) | 300 | 19 [illegible] | [illegible] |
| | 330 | 5½ [illegible] | [illegible] |
| Grand Met. (*946) | 900 | 74½ [illegible] | [illegible] |
| | 950 | 43½ [illegible] | [illegible] |
| I.C.I. (*1299) | 1250 | 46½ [illegible] | [illegible] |
| | 1300 | 27½ [illegible] | [illegible] |
| Kingfisher (*522) | 500 | 42½ [illegible] | [illegible] |
| | 550 | 14½ [illegible] | [illegible] |
| Ladbroke (*214) | 200 | 21½ [illegible] | [illegible] |
| | 220 | 11 [illegible] | [illegible] |
| Land Secur (*474) | 460 | 30½ [illegible] | [illegible] |
| | 500 | 11 [illegible] | [illegible] |
| M & S (*295) | 280 | 23½ [illegible] | [illegible] |
| | 300 | 13½ [illegible] | [illegible] |
| Sainsbury (*374) | 360 | 27 [illegible] | [illegible] |
| | 390 | 11 [illegible] | [illegible] |
| Shell Trans. (*484) | 460 | 27½ [illegible] | [illegible] |
| | 500 | 9½ [illegible] | [illegible] |
| Storehouse (*107) | 100 | 12½ [illegible] | [illegible] |
| | 110 | 6½ [illegible] | [illegible] |
| Trafalgar (*137) | 130 | 17 [illegible] | [illegible] |
| | 140 | 11½ [illegible] | [illegible] |
| Utd. Biscuits (*408) | 390 | 30 [illegible] | [illegible] |
| | 420 | 12½ [illegible] | [illegible] |
| Unilever (*921) | 900 | 46½ [illegible] | [illegible] |
| | 950 | 23½ [illegible] | [illegible] |
| Ultramar (*286) | 280 | 18 [illegible] | [illegible] |
| | 300 | 11½ [illegible] | [illegible] |
| Brit Aero (*279) | 280 | 11½ [illegible] | [illegible] |
| | 300 | 5 [illegible] | [illegible] |
| BAA (*550) | 550 | 13½ [illegible] | [illegible] |
| | 600 | 1¼ [illegible] | [illegible] |
| BAT Inds (*649) | 600 | 48½ [illegible] | [illegible] |
| | 650 | 14 [illegible] | [illegible] |
| [illegible] | | [illegible] | [illegible] |

### TRADITIONAL OPTION 3-month call rates

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ■ INDUSTRIALS | p | Charter Cons. | 40 | Ladbroke | 17 | Sears | 7½ | ■ OILS | |
| Allied-Lyons | 55 | Comm Union | 36 | Legal & Gen | 31 | SmKl Bchm A | 78 | Aviva Pet | 1¼ |
| Amstrad | 3 | Courtaulds | 39 | Lex Service | 18 | TI | 48 | BP | 22 |
| Astec (BSR) | 3 | Eurotunnel | 39 | Lloyds Bank | 31 | TSB | 10½ | Burmah Castrol | 40 |
| BAT Inds | 50 | FKI | 5½ | Lonhro | 20 | Tesco | 17 | Conroy Pet | 7½ |
| BOC | 48 | FNFC | 12 | Lucas Inds | 9 | Thorn EMI | 65 | Gaelic Res | ½ |
| BTR | 32 | Forte | 19 | Marks Spencer | 22 | T & N | 11 | Premier Cons | 3 |
| Barclays | 31 | GKN | 25 | Midland Bank | 19 | Unilever | 70 | Shell | 37 |
| Blue Circle | 22 | Gen Accident | 38 | NatWest Bank | 24 | Vickers | 14 | Tuskar Res | 1 |
| Boots | 33 | GEC | 15 | P & O Dfd | 34 | Wellcome | 75 | ■ MINES | |
| Bowater | 55 | Glaxo | 70 | Racal Elect | 4½ | ■ PROPERTY | | RTZ | 39 |
| Brit Aerospace | 27 | Grand Met | 78 | RHM | 18 | Brit Land | 21 | | |
| British Steel | 6 | GRE | 11 | Rank Org | 45 | Land Sec. | 38 | | |
| Brit Telecom | 24 | Hanson | 16 | Ratners | 5 | MEPC | 31 | | |
| Cadburys | 33 | ICI | 80 | Reed Intl | 40 | Mountleigh | 2½ | | |

# Gardiner's £6m falls short of expectations

By Peggy Hollinger

GARDINER, which claims to be the world's largest independent distributor of security products, yesterday announced the departure of its finance director as it revealed pre-tax profits of £6m – well below City expectations.

The shares tumbled 22 per cent to 42p following the announcement.

Analysts, expecting profits of between £7m and £8m, were surprised by the difference in the actual results, which appeared to stem from an error in calculating margins during the final quarter, as well as recessionary factors.

"We established in mid-January that our accounts were based on some over-optimistic assumptions," said Mr Yashar Turgut, managing director.

Mr Ian Nellist, who had been with Gardiner for three years, resigned by mutual consent, said Mr Turgut.

He will assume the finance director's responsibilities until a suitable replacement can be found.

The decline in the share price cast a shadow over the actual 15.6 per cent increase in profits and the 15.5 per cent rise in the dividend to 1.3p. Turnover rose by 46 per cent to £60.6m.

Mr Turgut said that Europe had provided the strongest growth with sales up 22 per cent, excluding acquisitions.

The UK, however, had been hard pressed during the recession, with comparable sales up just 2 per cent. Gardiner took a £400,000 provision – the first since 1985 – for bad debts in the UK. Mr Turgut warned that the core UK intruder business "continues to be unpredictable". Britain accounts for some 55 per cent of group sales.

On the brighter side, the closed circuit television division experienced above average growth. The acquisition of Multi-Video in June for £6m had brought Gardiner into the higher specification end of the market, Mr Turgut said.

"It is the high technology-led sectors of the security industry, in particular CCTV, which have the most exciting potential," said Mr Turgut. The group is introducing CCTV operations into each of its European subsidiaries.

During the year Gardiner also bought AW Alarm Systems of Denmark for £1.6m.

Debt at the year-end was £5.1m, while gearing had fallen from 80 per cent to 26 per cent. However, interest payments were only slightly lower at £1.48m (£1.53m).

Earnings per share tumbled from 5.07p to 4.25p, partly due to the effects of the group's £10.6m rights issue during the year.

**● COMMENT**

Had Gardiner warned in September that profits would not meet expectations, there would be a few happier analysts in the City. But had the company been aware of the error on gross margins, it might have been able to act earlier. As it is, investors will be watching closely to see if the 5 per cent price rise implemented in January will stick. The shares are likely to languish under the loss of credibility until the next set of results. The important thing to remember is the basic strength of the business. Gardiner would appear to be the main, if not only, security products distributor in Europe, so there is plenty of growth left there. CCTV should bolster a depressed UK. Forecasts range at about the £7m mark. The prospective p/e of over 10 looks cheap for a basically sound company.

# Allied Textile declines to £13.2m

By Daniel Green

FALLING PROPERTY prices last year prompted Allied Textile Companies to suspend property sales and led to a decline, from £13.7m to £13.2m, in pre-tax profits.

Problems in its financial activities were in contrast to the textile side, which contributed £8.5m (£8.3m) despite a fall in wool values which left overall turnover for the year to September 30 slightly lower at £112.2m (£115.3m).

"Current trading remains extremely difficult," said Mr John Corrin, chief executive. "It will be hard to match 1991's profit this year. We will continue to rationalise as necessary."

Closing businesses in 1991 led to an extraordinary charge of £377,000 (£644,000).

"We reduced staff by 290 and closed six textiles sites," said Mr Corrin. The company now employs 2,220 people.

Earnings per share fell by 1.4p to 31.7p as the company issued more shares through employee share option schemes.

The final dividend is increased by 0.2p to 7.9p, making a total of 12.3p (12p).

The company has net cash of £17m and Mr Corrin said there was "no question of the dividend being cut."

A change in accounting practice, the valuing of fixed assets, largely listed investments, at market prices rather than original cost, contributed to a 51 per cent jump in fixed assets to £37.7m.

Alan Bowkett: will invest £1.1m in the company

# Berisford picks new chief for rebuilding

By Peggy Hollinger

BERISFORD, the commodities and property group which narrowly escaped liquidation through an 18-month-long sale of assets, yesterday moved one step closer to rebuilding its business with the appointment of Mr Alan Bowkett as chief executive.

Mr Bowkett replaces Mr Murray Stewart, who directed the company's disposal programme and cut debt from £1.2bn to the current net cash position of £18m. The biggest sale was British Sugar in 1990 for £800m.

Berisford is now little more than a shell, with a UK property portfolio worth £57m, some small agribusinesses in California and a 45 per cent stake in Rayner Coffee International, the loss-making coffee trading group.

Mr Bowkett said his first task would be to sort out RCI. "In the next six months I want to resolve that problem [and] turn [it] into a profitable situation for shareholders." That could mean either retaining or reducing the stake.

Once RCI was dealt with, Mr Bowkett said he would begin building a core business, funded by further asset sales or perhaps rights issues. None of the existing operations would be suitable.

"We are looking for a fragmented market where we can put units together," Mr Bowkett said. He added he would be looking in the services and manufacturing sectors.

The property division was not part of Berisford's long-term plans, said Mr Bowkett. "Over the next few years we will either liquidate at a profit or look at some form of joint venture."

Mr Bowkett, who will invest £1.1m in Berisford in return for a 1.2 per cent stake, was former chief executive of United Precision Industries, sold to NSK of Japan for £210m in 1990, and managing director of Boulton & Paul, where profits doubled in two years.

Berisford shares moved up 3p to 20p on yesterday's announcement.

See Observer

# Huntingdon dips 12% in first quarter

By Roland Rudd

Huntingdon International Holdings, life sciences and engineering services group, reported a 12 per cent fall in pre-tax profits in its first quarter for the year to September.

Mr David Morgan, business development manager, said the decline, from £4.07m to £3.58m, was the result of the continuing recession in the US, where over 67 per cent of sales were generated. Turnover increased from £28.4m to £31m.

However, Mr Morgan said the new US regulations would help it penetrate the environmental services market.

The recently agreed acquisition of Travers Morgan had cost the group £6m in cash and a further £6m in shares. Mr Morgan said the reorganisation of the company, specialising in road, bridge and tunnel design, would be completed after the group's second quarter.

Earnings per share were 0.029p (0.033p) and per ADR were 26.7 cents (30.6 cents).

## Anglo Irish rights

Anglo Irish Bank Corporation's rights issue has attracted acceptances in respect of 55.29m new ordinary shares (91.9 per cent). The remaining 4.89m shares were sold in the market at 47p each, a 1p premium over the issue price.

# Fleming Income coming to main market

By Philip Coggan, Personal Finance Editor

FLEMING INCOME and Capital Investment Trust is joining the main market via an offer for subscription which could raise up to £250m.

Like many other recent investment trust issues, the trust has a split capital structure and is linked to a personal equity plan. Investors will be able to place a full £6,000 of shares into a Pep in respect of each of the 1991-92 and 1992-93 tax years. Returns from a Pep are free of both income and capital gains tax.

The trust has two classes of share: zero dividend and ordinary income. The former, which are being placed at 30p, will have an entitlement to be repaid at 85.2p when the trust is wound up in 2002. This is equivalent to a gross redemption yield of 11 per cent.

The initial net assets of the company, after expenses, are expected to cover 112 per cent of the final capital entitlement of the zero shareholders.

The ordinary income shares will be entitled to all the income of the trust but will only be repaid after the entitlements of the zero shareholders have been met in full.

The forecast gross dividend yield on the ordinary income shares is 9 per cent. Dividends will be paid quarterly. The compound rate of growth of assets needed for the ordinary income shares to be redeemed at the issue price in 2002 is 5.2 per cent.

The trust will invest in UK shares and will aim for a yield one third higher than that on the FT-Actuaries All-Share Index. That implies a gross dividend yield on the portfolio of 6.6 per cent.

Private shareholders can apply for the ordinary income shares at 70p, or a packaged unit of ordinary income and zero shares at 100p, which will yield 6.3 per cent. They will not be able to apply for the zeroes directly. These will be placed with institutions.

Commissions of 3 per cent are being paid to independent financial advisers who sell the trust so the expenses, like those on last year's M&G issue, are high for an investment trust offer. If the trust raises £100m, expenses will absorb 4.3 per cent of the proceeds.

Applications are invited by February 24 for a minimum of 1,000 units or 1,500 ordinary income shares. The offer, which is not underwritten, will not proceed unless £30m is raised.

**● COMMENT**

The investment trust marketing spree rumbles on, with an extra selling device being the prospect of a Labour government. The attractions of offers like this is that if all goes well, a private investor placing the ordinary income shares in a Pep can earn a tax-free yield of 9 per cent; the equivalent gross yield for a top rate taxpayer is 15 per cent. Of course, the risk is that the ordinary income shares might not be repaid at the issue price, especially as the managers will not be able to buy exclusively blue chips if they are aiming for a portfolio yield of 6.6 per cent. As so often with these trusts, the zeroes, which are well covered, look the best deal but private investors can only buy them as part of the package. What with this offer, and the M&G Recovery Trust being advertised on TV, we will soon discover whether the industry has swamped investor demand.

# Seeboard moves into gas supply

By David Lascelles, Resources Editor

Seeboard, the electricity distributor serving the south-east of the UK, is to go into the gas supply business.

It has set up a joint venture, Southern Gas, in which it will hold a 75 per cent stake, the rest being owned by Utilicorp, the US gas and electricity utility based in Kansas City.

The venture will purchase gas from United Gas, another UK subsidiary of Utilicorp, and supply it to large gas consumers via British Gas pipelines starting in March.

Seeboard said the move would enable it to provide a more comprehensive energy service to customers. It intended to expand the service as UK regulations were eased.

The deal is the fourth of its kind for Utilicorp.

# Babcock Prebon £49m deficiency

By Jane Fuller

Babcock Prebon, a financial services group that went into receivership in September owing £50m to its banks, has been compulsorily wound up in the High Court with a net deficiency of £49m.

Cork Gully, the receivers, sold the main trading businesses to management as soon as they were called in by Samuel Montagu.

Babcock Prebon's demise was blamed on its high debt, recession and substantial rental commitments on four properties it vacated to move into new offices in Broadgate.

In August it announced losses of £8.5m for the first six months of the year, after £30m losses in the previous 18 months.

## Brent Walker sells Le Touquet assets

Brent Walker yesterday announced the disposal, for £16.4m, of its hotel, golf courses, property and other interests at Le Touquet, France. Contracts have also been exchanged with Mr John Aspinall and Mr James Osborne for the Casino Du Palais, Le Touquet, for £2m.

Mr Nicholas Ward, group managing director, said the two transactions resulted in the payment of all its French borrowings.



Trevor Humphries

Sir Simon Hornby, chairman (left), and Sir Malcolm Field, group managing director

# WH Smith sees CDs as growth area

FORTUNES were rather mixed at WH Smith, which saw buoyant sales in its high street bookstores countered by a sluggish performance at its Our Price Records stores, where turnover was hurt by the downturn in recorded music sales. Although the drop there was due in part to the recession, there was nevertheless a marked improvement in music sales over the Christmas period, which was not such a profitable time for the book business.

Sir Simon Hornby, chairman, expressed optimism that with CD penetration in the UK only at 31 per cent, the prospects were bright for growth in recorded music sales. There was still some resistance to the high price of CDs, but moves were being taken to introduce lower price ranges, which should help stimulate sales.

Sir Simon said that the deal agreed with Virgin Group in September, whereby WH Smith would buy a 50 per cent stake in Virgin's retailing operations, was close to being finalised.

The Virgin megastore format complements that of the typical Our Price Records store, which tends to have considerably less floor space than the 10,000 sq ft of a typical Virgin megastore.

The group has similarly rosy visions for its DIY joint venture with Boots, which has been battered by the severe price cutting of its principal competitors.

The product range has been substantially improved, Sir Simon contends, and Do It All is set to become the number two DIY business in the UK.

[illegible]

| ½ hour period ending | Pool purchase price £/MWh | Pool purchase price £/MWh | Pool selling price £/MWh |
|---|---|---|---|
| 0030 | 17.18 | 17.18 | 17.13 |
| 0100 | 17.48 | 19.48 | 21.08 |
| 0130 | 17.59 | 22.36 | 24.12 |
| 0200 | 17.59 | 22.39 | 24.10 |
| 0230 | 17.47 | 20.26 | 21.60 |
| 0300 | 17.34 | [illegible] | [illegible] |
| 0330 | 17.46 | 17.18 | 17.18 |
| 0400 | 17.21 | 17.11 | 17.11 |
| 0430 | 17.20 | 17.05 | 17.05 |
| 0500 | 17.19 | 17.06 | 17.06 |
| 0530 | 17.18 | 17.01 | 17.01 |
| 0600 | 17.16 | 17.01 | 17.01 |
| 0630 | 17.18 | 17.05 | 17.05 |
| 0700 | 17.47 | 17.11 | 17.11 |
| 0730 | 19.27 | 17.16 | 17.16 |
| 0800 | 22.06 | 17.18 | 17.13 |
| 0830 | 23.11 | 19.57 | 21.19 |
| 0900 | 23.44 | 19.32 | 20.95 |
| 0930 | 23.65 | 19.05 | 21.25 |
| 1000 | 23.71 | 19.65 | 21.27 |
| 1030 | 23.52 | 20.62 | 22.25 |
| 1100 | 23.36 | 20.82 | 22.59 |
| 1130 | 23.36 | 21.42 | 22.19 |
| 1200 | 23.37 | 25.00 | 25.81 |
| 1230 | 23.28 | 25.00 | 25.81 |
| 1300 | 23.06 | 25.00 | [illegible] |
| 1330 | 20.34 | 22.04 | 23.70 |
| 1400 | 19.24 | 21.06 | 22.72 |
| 1430 | 18.18 | 17.73 | 17.70 |
| 1500 | 17.62 | 17.59 | 17.59 |
| 1530 | 17.53 | 17.59 | 17.59 |
| 1600 | 17.69 | 20.51 | 20.91 |
| 1630 | 23.76 | 25.23 | 27.04 |
| 1700 | 55.06 | 25.65 | 27.57 |
| 1730 | 67.58 | 28.30 | 29.71 |
| 1800 | 64.51 | 28.99 | 37.96 |
| 1830 | 57.42 | 24.44 | 26.16 |
| 1900 | 23.41 | 23.77 | 25.44 |
| 1930 | 22.15 | 21.96 | 23.16 |
| 2000 | 19.32 | 21.56 | 23.16 |
| 2030 | 19.18 | 19.65 | 21.24 |
| 2100 | 19.14 | 19.67 | 21.21 |
| 2130 | [illegible] | [illegible] | [illegible] |
| 2200 | [illegible] | [illegible] | [illegible] |
| 2230 | [illegible] | [illegible] | [illegible] |
| 2300 | [illegible] | [illegible] | [illegible] |
| 2330 | [illegible] | [illegible] | [illegible] |
| 2400 | [illegible] | [illegible] | [illegible] |

[illegible] through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

## UK COMPANY NEWS

# BPCC pensioners thankful for their timely escape

By Raymond Snoddy

"MAXWELL knew I would never take any shit from him," is how Mr John Holloran, chief executive of BPCC, the printing group, describes his relationship with the late chairman of MCC.

It was that very toughness that attracted Mr Robert Maxwell in the first place when he saw Mr Holloran in action trying unsuccessfully to buy his old employers, McCorquodale, the printers. McCorquodale was ultimately taken over by Norton Opax.

Mr Holloran worked for Mr Maxwell for two years before putting together a buy-out that did work – a £235m deal which in January 1989 took BPCC out of MCC and Maxwell out of printing in the UK.

Some 4,000 members of the BPCC pension fund should be more than a little grateful for Mr Holloran's persistence and robust attitude to his former employer.

Nearly £100m owed to the BPCC pension scheme was successfully transferred to the fund in late September and early October last year. The money arrived safely at the very time when the Maxwell empire was under its most extreme financial stress and when, it is now known, many millions were missing from other Maxwell pension funds.

Under the buy-out agreement an initial £30m went into the BPCC pension fund and a further £97m was due last autumn. When the money was several weeks late Mr Holloran, who is chairman of the BPCC pension fund, contacted Mr Maxwell and £50m arrived in late September while the balance was paid in early October.

"All our pension money has been paid over. It's virtually all in alpha shares, cash or gilts," says Mr Holloran, who adds that considerably less than £1m is in Mirror Group Newspapers or MCC shares.

MCC's stake in BPCC, which started out at 19.9 per cent in 1989, has now fallen to 14 per cent because rights were not taken up.

Mr Holloran said that the collapse of the Maxwell empire has not affected the BPCC business in any way apart from the irritation of having to deal with constant rumours and questions.

The recession has hit the printing business hard but Mr Holloran said that all 50 printing plants taken over from Maxwell were still operating, although the workforce has fallen from 7,400 to 5,200.

In 1990 the company made pre-tax profits of £39m. Since then recession has eroded margins, particularly in the company's web offset printing businesses. It is however expected to have remained profitable in 1991.

But one of Mr Holloran's greatest assets at the moment, given the history of the company, must be its fully funded pensions fund.

# The ass brays over the silence of the lamb

## Robert Rice on Kevin Maxwell's lost appeal for privilege against self-incrimination

THE COURT of Appeal's decision yesterday on Mr Kevin Maxwell's right to remain silent about the missing Maxwell millions has gone some way towards clarifying when a person facing possible criminal charges can invoke the privilege against self-incrimination in order to refuse to answer investigators' questions.

It is now clear – in the absence of a successful appeal to the House of Lords by Mr Maxwell – that in investigations involving legislation such as the 1986 Insolvency Act or the 1985 Companies Act under which Parliament has either expressly or by implication removed the privilege against self-incrimination, that the mere fact that a person's answers might incriminate him is not enough by itself to make it unfair that he should be required to answer.

In private actions not involving legislation which has removed the privilege and where the individual concerned fears prosecution for conspiracy, the privilege can be invoked by individuals concerned as justification for refusing to answer questions in civil proceedings.

The central issue in Mr Maxwell's appeal was whether he could invoke the privilege to refuse to answer questions put to him by the provisional liquidator of Bishopsgate Investment Management, which managed Maxwell pension funds, under the 1986 Insolvency Act.

The Maxwell case is the latest in a long line of similar cases which have left the law on privilege in a state of uncertainty.

The High Court has been divided on the issue. In July 1990, in a case arising out of the Barlow Clowes affair, the court ruled that a person being questioned under section 236 of the Insolvency Act (the same section under which the provisional liquidator of BIM wishes to question Mr Maxwell) was entitled to invoke the privilege. An appeal is now pending.

In October last year, however, in an application arising out of the Levitt case, the court reached exactly the opposite conclusion. An appeal is also pending in that case.

This was followed in November 1991 by a case involving Farr, in which the same question came up again before the judge who had heard the Barlow Clowes case. This time, however, he decided to follow the decision of the judge in the Levitt case.

Trevor Humphries

Kevin Maxwell leaving the High Court: unable now to refuse to answer questions from the liquidator of BIM

In the Maxwell case, heard by the High Court just before Christmas, Mr Justice Hoffmann also decided to follow the decision in the Levitt case, resulting in the present appeal.

In the Barlow Clowes and Levitt cases, however, unlike the Maxwell case, criminal charges had already been brought against the individuals involved before the court was asked to rule on the availability of the privilege.

Those appeals therefore will raise a further question, namely: if the privilege is not available because it has been removed by legislation, would it nonetheless be oppressive and unfair to allow questions under the Insolvency Act when criminal proceedings are pending?

This question has already been dealt with once by the Appeal Court at the end of last year in a case involving a former director of London United Investments, the failed insurance group.

The Appeal Court's answer was no. Although the Insolvency Act does not expressly remove the privilege, it is nevertheless by implication not available to a person questioned under the Act since otherwise the obvious purpose of the legislation would be defeated.

The fact that the answers might incriminate him was not enough on its own to make it unfair that he should be required to answer, particularly in view of the fact that the position of the person involved meant he was more likely than anyone else to know the answers to the questions and, because of that position, he owed a fiduciary duty to the companies at the centre of the investigation.

The Appeal Court yesterday faced the additional complication that in several recent cases involving investigations under legislation which has by implication or expressly removed the privilege, the individual concerned has been protected by a safeguard in the legislation which provides that nothing said by him in response to such questions is admissible as evidence in any subsequent criminal proceedings.

The Criminal Justice Act 1987, for example, extends that safeguard to suspects being questioned by the Serious Fraud Office.

They must answer the SFO's questions but what they say cannot be used as evidence against them in any subsequent prosecution.

The safeguard is not, however, contained in the 1986 Insolvency Act, and in the absence of the specific imposition of such a safeguard by Parliament, it has long been established that civil courts have no jurisdiction to impose a condition on the use of such answers by the prosecution as evidence in criminal proceedings.

The court ruled that as, following decisions in earlier cases, the Insolvency Act had by implication removed the privilege against self-incrimination – because to decide otherwise would clearly frustrate the purpose of the legislation – Mr Maxwell's appeal must be dismissed.

The issues in the cross appeal by MGN against Mr Justice Hoffmann's ruling that Mr Maxwell was entitled to invoke the privilege in respect of a private action brought by MGN were by comparison far simpler.

MGN's case was that, under the general common law, the privilege was not available to a defendant if immediately before the time of the alleged fraud which was the subject of the action, the defendant was a fiduciary, servant or agent of the plaintiffs bringing the action, and the purpose of the action is to recover money or property for which the defendant, as a fiduciary, was accountable to the plaintiffs.

The court was not persuaded by MGN's proposition that where someone agrees to act as a fiduciary to a company he, by implication, contracts not to invoke the privilege against self-incrimination in any case brought by the company to enforce his fiduciary duties.

It said the privilege against self-incrimination was so deeply entrenched in English law that any decision to curtail it or make it not available had to be a political decision taken by Parliament in the public interest.

The Maxwell case has, however, pointed up one glaring anomaly in the present state of the general common law on the privilege against self-incrimination. It can be invoked by a person who fears prosecution for conspiracy to defraud but is not available to a person who expects to be prosecuted for fraud under the Theft Act.

This is because the Theft Act provides that a defendant cannot refuse to answer questions or disclose information in civil proceedings on the grounds that this might incriminate him of a Theft Act offence. In recognition of this however, the Act specifically provides that nothing said by the defendant in reply to such questions is admissible in subsequent criminal proceedings against him.

Conspiracy however is not a Theft Act offence.

This, the Appeal Court noted yesterday, is logically indefensible. Fear of prosecution for conspiracy has effectively robbed these Theft Act provisions of their effect in civil cases.

The Court will not be alone in thinking that Parliament must act quickly to correct this.

# Probe into Imro's supervision of BIM

By Norma Cohen, Investments Correspondent

A PARLIAMENTARY Select Committee is to question officials of the Investment Management Regulatory Organisation, the quasi-governmental self-regulatory body, about its role in supervising the fund manager of the Maxwell companies' pensions funds.

Officials of Imro will appear before the Select Committee on Social Security some time within the next two weeks. The committee, chaired by Mr Frank Field MP, will question the regulators about how the fund managers became authorised to conduct investment business and how their activities were supervised thereafter.

Earlier this week, members of the Maxwell Private Companies Pension Fund Members Association, charged that Imro had failed to protect the public. Mr Kenneth Trench, chairman of the group, cited press reports that Imro had visited the premises of Bishopsgate Investment Management – the funds' investment manager – only six weeks before Mr Maxwell's death and found no problems. Since then, auditors have found hundreds of millions of assets missing from the pension funds managed by BIM.

The pensioners questioned whether BIM's ownership had been properly investigated prior to authorisation. Mr Trench noted that it is owned by a charitable organisation which is based in Liechtenstein and appeared to be controlled by the late Mr Robert Maxwell.

## BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims- AIM, Courtyard Leisure, Davies (DY), Ewart, Goodhead Intl, Newport Hldgs, ML Hldgs, Menvier-Swain, Photo-Me Intl, Specialeyes, Unitech.

Finals- Continental Assets Trust, Domino Printing Sciences, Kershaw (A), Rank Organisation, SEP Industrial, Warner Estate.

FUTURE DATES

| | |
|---|---|
| Interims- | |
| Asmead | Feb. 10 |
| British Thornton | Feb. 5 |
| Churchbury Estates | Jan. 31 |
| Compass | May 20 |
| Finlan | Jan. 31 |
| Heritage | Feb. 4 |
| Season | Feb. 3 |
| Finals- | |
| Baldwin | Feb. 10 |
| East German Inv Trust | Feb. 5 |
| McAlpine (Alfred) | Feb. 27 |
| Metal Bulletin | Mar. 4 |
| Printech Intl | Feb. 4 |
| Wimpey (George) | Mar. 17 |

## NEWS DIGEST

### Tomkins buys control of valve maker

TOMKINS, the industrial conglomerate, is paying nearly £11m for the outstanding 60 per cent of Guest & Chrimes, a maker and supplier of cast iron valves and hydrants for the water industry.

A 40 per cent interest in Guest came into the group with the 1986 acquisition of Pegler Hattersley and it will join those valve and tap businesses in the fluid controls division.

Mr Greg Hutchings, chief executive, said Guest took the group further into the UK water industry, which was benefiting from a big capital spending programme.

In 1990, Guest made pre-tax profits of £2.5m on sales of £12.7m and had net assets of £9m at the end of that year.

Most of the consideration is through the issue of 2.25m Tomkins shares. The remaining £1.25m is in loan notes. The stake is being purchased from the family owners.

Tomkins recently announced a 40 per cent increase to £43.7m in interim pre-tax profits on sales of £594.8m.

### Kembrey falls 68% to £170,000

Against a background of numerous board changes and rationalisation of its operations, pre-tax profits of Kembrey, the electrical precision components and foundry products group, showed a 68 per cent decline in the six months to September 28.

Although turnover increased by £5.58m to £15.1m, the pre-tax line fell from £530,000 to £170,000.

The principal reasons for the decline were £122,000 of trading losses of the discontinued business of Ripault-Drivex and £172,000 of exceptional losses due to reorganisation and adjustment for prior periods related to the discontinued Coated Electrodes' business.

These losses were further exacerbated by an interest turnround to charges of £271,000 (£35,000 credit) relating to the acquisition in 1990 of McMurdo, a manufacturer of connectors and marine safety lights.

Earnings per share fell to 0.4p (1.2p) and again there is no interim dividend.

### N England Building Society ahead 12%

The Sunderland-based North of England Building Society produced a 12 per cent improvement in net profits to £10.3m and a similar increase in lending to £297m in 1991. Assets advanced 20 per cent to more than £1.2bn.

Mr Robert Linden, group chief executive, said: "Our performance must be among the best in the country," and he pointed out that the £620,000 provision for losses was a figure that would be envied by many societies.

The number of the society's borrowers between three and six months in arrears was only eight more at the year-end than it had been a year earlier: 1,066, against 1,058. The number of homes in possession was up from 47 to a record 160 at the end of 1991, only 0.38 per cent of all homes mortgaged.

### Cairn Energy US acquisition

Cairn Energy's US subsidiary, Cairn Energy (USA), has paid $1.2m cash for a 64 per cent controlling stake in Omni Exploration, a publicly quoted US oil and gas company.

Omni has interests in more than 400 wells, primarily in Texas, and operates some 200 wells from its operations office in Pampa, Texas.

The company's proved reserves are 1.6m barrels of oil and 26.3bn cu ft of gas. The operation adds production of about 200 barrels of oil and 1.4m cu ft of gas per day to the group.

### Hambros Inv Trust net assets static

The net asset value of Hambros Investment Trust was 46.54p per share at September 30, down from the 46.61p at the same stage of 1990.

The trust's equity capital is held by Hambros and its subsidiaries, and only the two classes of preference stock are quoted on the Stock Exchange. Dividends would continue to be paid on these stocks, directors said.

Net revenue for the six months to end-September amounted to just £8,000 (£1.58m) reflecting the virtual absence of investment profits. Losses per share emerged at 0.02p (earnings of 2.89p).

### Waverley Cameron £3m subsidiary sale

Because of difficulties in renegotiating satisfactory working capital facilities with its bankers, Waverley Cameron is raising finance by selling A&J Partners, its discount stationery subsidiary, for £3.02m.

It has provisionally agreed the sale to a management-led company, which will pay £2.2m on completion and assume the existing property mortgage of £820,000.

Waverley said difficulties arose with banks – which effectively withdrew £2m of working capital – despite that it reducing borrowings from £7.81m since March 31 to £4.54m, significantly improving the trading performance of Partners, and integrating and restructuring the office products activities, thereby making significant savings in operating costs.

### Margins expand as Adscene hits £0.7m

Pre-tax profits at Adscene Group recovered strongly in the six months to November 30, and shareholders benefit by having their interim dividend doubled to 1.5p.

The group, which publishes 33 local newspaper titles in Kent, Lincolnshire and London, saw profits rise from £462,000 to £720,000 largely as a result of a lower cost base.

Mr Harry Lambert, chairman, said margins expanded 3 per cent to 12.6 per cent while the interest bill fell 25 per cent to £303,000 following the sale of the Lincoln property for £1.2m.

Turnover fell to £8.1m (£9.2m). In Kent the group lifted publishing turnover by 13 per cent. In Lincolnshire and London advertising revenue continued to fall but there were some signs recently that the decline had slowed.

The printing division's turnover again reduced by 23 per cent but margins were still above 10 per cent. There were only limited opportunities in the immediate future for new printing contracts, Mr Lambert stressed.

Earnings per share rose to 3.01p (1.78p).

### Farepak confident of strong growth

Farepak, the USM-quoted mail order and food processing group, is confident that the current year will show strong growth, and is raising its interim dividend by 26 per cent.

The seasonal loss for the opening six months, to October 31 1991, was up from £599,000 to £613,000. Turnover expanded to £10.4m (£3.99m) as a result of the acquisition of Tranfood Meat which had been integrated with the food processing business.

The interim dividend is 1.45p (1.15p). The previous year's total was 3.87p from pre-tax profits of £3.7m.

## DIVIDENDS ANNOUNCED

| | | Current payment | Date of payment | Corres-ponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|
| Adscene | int | 1.5 | Apr 8 | 0.75 | - | 2 |
| Allied Textile | fin | 7.9 | Apr 1 | 7.7 | 12.3 | 12 |
| Farepak § | int | 1.45 | Mar 4 | 1.15 | - | 3.87 |
| Gardiner | fin | 0.83† | Apr 10 | | 1.3 | 1.125 |
| Smith (WH) | int | 4.3† | Apr 1 | 4 | - | 12.5 |

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

## PUBLIC WORKS LOAN BOARD RATES

Effective January 29

| Years | Quota loans* EIP† | Quota loans* AT† | Quota loans* maturity |
|---|---|---|---|
| 1 | | | $10\frac{1}{4}$ |
| Over 1 up to 2 | $10\frac{1}{8}$ | $10\frac{1}{8}$ | $10\frac{1}{4}$ |
| Over 2 up to 3 | $10\frac{1}{8}$ | $10\frac{1}{8}$ | $10\frac{1}{8}$ |
| Over 3 up to 4 | $10\frac{1}{8}$ | $10\frac{1}{8}$ | $10\frac{1}{8}$ |
| Over 4 up to 5 | 10 | 10 | $10\frac{1}{8}$ |
| Over 5 up to 6 | 10 | $10\frac{1}{8}$ | $10\frac{1}{4}$ |
| Over 6 up to 7 | $10\frac{1}{8}$ | $10\frac{1}{8}$ | $10\frac{3}{8}$ |
| Over 7 up to 8 | $10\frac{1}{8}$ | $10\frac{1}{8}$ | $10\frac{3}{8}$ |
| Over 8 up to 9 | $10\frac{1}{8}$ | $10\frac{1}{4}$ | $10\frac{3}{8}$ |
| Over 9 up to 10 | $10\frac{1}{4}$ | $10\frac{3}{8}$ | $10\frac{1}{2}$ |
| Over 10 up to 15 | $10\frac{3}{8}$ | $10\frac{5}{8}$ | $10\frac{1}{2}$ |
| Over 15 up to 25 | $10\frac{5}{8}$ | $10\frac{1}{2}$ | $10\frac{3}{8}$ |
| Over 25 | $10\frac{1}{2}$ | $10\frac{3}{8}$ | $10\frac{3}{8}$ |

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. ††Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

## LEGAL NOTICES

No. 0091 of 1992
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF
VENTURE PLANT GROUP Plc
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 6th day of January 1992 presented to Her Majesty's High Court of Justice for the confirmation of (1) the reduction of the Capital of the above-named Company from £1,296,394.44 to £600,000 and (2) the reduction of the Share Premium Account of the above-named Company by £2,936,637.16. AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Honourable Mr. Justice Mummery at the Royal Courts of Justice, Strand, London, WC2A 2LL, on Monday the 10th day of February 1992.

ANY Creditor or Shareholder of the Company desiring to oppose the making of an Order for the confirmation of the proposed reduction of Capital and Share Premium Account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

Dated this 30th day of January 1992.

SPEECHLY BIRCHAM Bouverie House, 154 Fleet Street, London EC4A 2HX. [illegible] Solicitors for the above named company.



## PERSONAL



## ART GALLERIES



## COMPANY NOTICES

THE ROYAL BANK OF CANADA
U.S. $350,000,000 Floating Rate Debentures due 2005

In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 31st January, 1992 to 28th February, 1992 has been fixed at 4¾% per annum. On 28th February, 1992 interest of U.S. $3.256944 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 28th February, 1992 will be determined on 28th February, 1992.

Agent Bank and Principal Paying Agent
ROYAL BANK OF CANADA EUROPE LIMITED

# COMMODITIES AND AGRICULTURE

## Trade row looms over US's dolphin-friendly tuna policy

By David Dodwell, World Trade Editor

THE US appears to be set on a collision course with Japan and the European Community over its restrictions on tuna imports.

A San Francisco federal court called this week for strict enforcement of a ban on the import of tuna caught using methods that inflict heavy casualties on associated dolphin, a ruling that will highlight the controversy over whether or not the US has the right to interfere with trade in this way and sharpen the conflict between trade and environmental priorities.

It is also bound to fuel the fierce opposition of US environmental groups to proposed reforms in world trade being negotiated in the Uruguay Round of trade negotiations.

The US Department of Commerce, which is trapped between US law that insists on the ban and a ruling by the General Agreement on Tariffs and Trade that outlaws it, has asked for a stay of the court ruling.

An initial ban in February last year included both primary exporters of tuna to the US – mainly Mexico, Venezuela and Vanuatu – and a list of 27 other countries which buy tuna and resell it to the US.

Mexican tuna fishermen, unlike their US counterparts, fish in the eastern tropical Pacific, where for unknown reasons, schools of yellowfish tuna swim below dolphin herds. US tuna boats fish near New Guinea, where dolphins stay apart from the predominantly albacore and skipjack tuna.

The Earth Island Institute, which has been responsible for pressing the issue into US courts, claims that the Mexican tuna boats killed about 50,000 dolphins this year. US officials say 15,000 is nearer the truth.

The institute brought the latest action because enforcement of the ban on secondary countries, who are accused of "laundering dolphin-unsafe tuna", has been lax. The San Francisco federal court has given these countries until Friday to provide certificates proving they were not re-exporting Mexican or Venezuelan tuna. Prominent among the new targets are Japan, Italy, Spain and France.

The ban is anyway outlawed by a Gatt panel ruling following a complaint from Mexico to the Geneva-based international trade body.

Its argument that the US action was an unfair obstacle to trade was upheld by the Gatt – not out of a callous unconcern for the plight of dolphins, but because of the "extraterritorial" nature of the action: Gatt said the US "may not restrict imports of a product merely because it originates in a country with environmental policies different from its own".

The ruling inflamed a wide range of environmental groups in the US, who saw the action as symptomatic of an inherent conflict between the demands of free trade and a country's right to enforce strict environmental standards.

Environmental lobbyists are also becoming increasingly alarmed at the prospect of hard-won protection being undermined by the decisions of what they see as anonymous trade officials in Geneva who are not answerable to any elected body.

These concerns have led a coalition of 28 US environmental groups being formed to call for the rejection of the Uruguay round of proposed world trade reforms. A fiercely-contested draft agreement was released late in December after six years of tortuous negotiation.

An irony as the tuna war erupts afresh is that Mexico, which launched the initial protest against US action, has dropped actions against its northern neighbour, and has acted to change its fishing methods to reduce the danger to dolphins. The Mexican government is anxious to seal a free trade agreement with the US and Canada, and was unwilling to see this row undermine the prospects of success.

Gatt negotiations, Page 3

## Traders bearish on outlook for cotton

By Barbara Durr in Chicago

COTTON FUTURES prices, after two days of hovering near life-of-contract lows, saw a tiny rally after yesterday morning's open at the New York Cotton Exchange. But with the market virtually awash with cotton and diminishing world demand, the outlook was for continued downward pressure on prices.

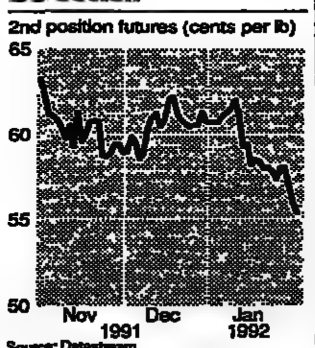
The March spot month contract at NYCE rose yesterday morning to 53.65 cents a lb, up from Tuesday's close of 53.38 cents a lb. The May contract crept up to 55.55 cents from its previous close of 55.37 cents. The rises were considered to be technical with a little bit of profit taking.

Some market observers were waiting to see how much cotton American farmers would place in the US Department of Agriculture's loan programme. The USDA takes farmer's cotton, paying them a set amount as a interest-free loan and storing the cotton for ten months without charge. Farmers can redeem the cotton if prices rise or forfeit it if they do not.

If a lot of US cotton had been put into the loan programme, it would have created an artificial tightness in the market, prompting prices to rise a little. But only 4.3m bales are currently in the programme out of a 17.5m bale crop, and this has had virtually no effect on market sentiment.

US cotton

2nd position futures (cents per lb)




Source: Datastream

International market factors are perhaps weighing on prices even more heavily, say cotton analysts. China, which has its second largest crop ever in 1991-92, has switched from being a net importer to being a net exporter.

According to the secretariat of the International Cotton Advisory committee, China, which had been a net importer of 280,000 tonnes last year, is expected to become a net exporter of 60,000 tons this year. Cotton is also pouring on to the market from the republics of the former Soviet Union, which need hard currency. They have also been supplying cotton in barter deals with trading companies, the committee reported.

The Central Asian republics of Commonwealth of Independent States and Paraguay have also aggressively and repeatedly cut cotton prices since last summer, according to Ms Sharon Johnson, a cotton analyst with Cargill Investor Services.

## Central bank sales 'may weigh down gold market'

By Kenneth Gooding, Mining Correspondent

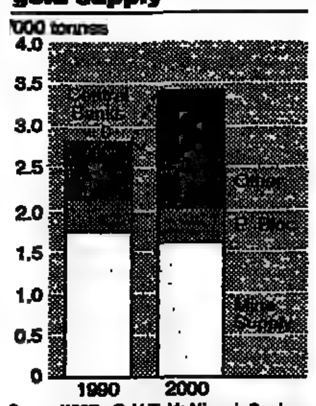
GOLD PRODUCERS should not rely too heavily on the present fall in mine output to push the price up from current levels. Much will depend on the future action of the Central Banks who between them hold 35,619 tonnes, equivalent to 17 years' production of the indestructible metal.

It is reasonable to expect the banks to become net sellers of about 700 tonnes a year from the mid-1990s, suggests Mr Andy Smith, analyst at the Union Bank of Switzerland, in his latest quarterly Precious Metals Outlook.

He points out that gold's monetary role is "now history for private investors and central banks. Selling gold would be just part of a day's work for a central bank, not an admission that the financial world as investors know it was about to end".

Mr Smith says that if the eight countries which between them account for more than 85 per cent of central bank gold were to sell all their gold and reinvest the proceeds in interest-bearing paper, the combined annual return, in perpetuity, would be $21bn.

New world order of gold supply




Source (1990): Gold Fields Minerals Services, Forecasts Union Bank of Switzerland

"On a per capita basis, the annual dividend would be impressive enough to catch the eye of even the most well-to-do taxpayer," he adds.

There is no suggestion that central banks would take this course but they are certainly under increasing pressure to include gold sales in their "gold mobilisation" policies, says Mr Smith.

For example, as part of a recent revised treatment of US net international indebtedness, the US Commerce Department revalued that country's gold reserves at market prices rather than the still official $42 a troy ounce. "Clearly, an unrealised asset value of over $80bn has not completely escaped US official attention."

Mr Smith also points out that, if the course towards true European monetary union runs smooth, before the year 2,000 a single European central bank will control 40 per cent of the world's official gold reserves – 11,600 tonnes now in EC members' vaults plus nearly 3,000 tonnes in the European Monetary Co-operation Fund.

"A single European currency reduces the principle need for reserves of any kind – intervention in currency markets. A Eurobank could economise on all reserves," he adds. "Seeing this, EC member states could even make pre-emptive strikes, liquidating gold and currency reserves to the benefit of taxpayers before the ink is dry on Eurobank statutes."

## Barrick and Newmont agree on development of Nevada deposit

By Bernard Simon in Toronto

AMERICAN BARRICK and Newmont Gold, after failing to consummate a merger last year, have signed an agreement in principle to co-operate in developing their properties in the northern sector of Nevada's rich Carlin Trend gold deposit. The chief executives of the two companies said yesterday that the agreement "effectively realises many of the benefits" identified during last year's abortive merger talks. Final details of the pact are expected to be completed soon.

It includes development of the Deep and Lower Post ore body adjacent to Barrick's Goldstrike mine, as well as exploration and development along common property boundaries, and sharing of Newmont's bioleaching technology.

The Post body straddles the border between the two companies' properties and contains an estimated 9m troy ounces of gold. Barrick has agreed to expand its existing Betze pit at Goldstrike to include Deep and Lower Post. The expanded pit will be known as the Betze-Post pit.

Stripping of the expanded area is due to start next year, and mining of most of the Deep and Lower Post ore will begin in 1997. Mining of the Post body will also give access to 580,000 ounces of gold from near-surface material on Newmont land.

Until now, neither company has shown gold from the Deep and Lower Post body in its production forecasts. Newmont owns 5m ounces of the Post deposit, while Barrick's share is about 4m ounces.

The companies plan to share the costs of mining the Deep and Lower Post reserves in proportion to the benefits received. Production costs will thus be the same for both companies.

They said that an agreement for joint exploration and sharing of data will enable "rapid and economic development" of new discoveries along common boundaries.

## FAO plans to preserve farm animal genes

By David Blackwell

A FIVE-YEAR, $15m plan to preserve the ancestral gene pool of domestic animals in the developing world is being launched by the Food and Agriculture Organisation of the United Nations.

Mr Edouard Saouma, FAO director-general, believes the situation is urgent. "Most of the animal resources that exist in the developing world have been in stable production systems for hundreds of years," he says. "Now they are coming under competitive pressure from imported stocks. A breed can be completely changed genetically in 10 years without a full understanding of what will be lost."

The FAO is kick-starting the plan with $3m, but is seeking donor funding for the rest.

Pakistani sahiwal cattle, a promising dairy breed, are under threat from attempts to adapt European holsteins

The programme has five goals – to take a world inventory of livestock breeds and strains; to establish banks of semen and embryos from endangered animals; to start conservation programmes to save livestock in native habitats; to use DNA technology to determine genetic characteristics and improve breeds; and to develop an international legal framework for global animal trade.

Mr Patrick Cunningham, director of the FAO's animal production and health division, believes livestock is under pressure from both the move from subsistence to commercial farming, and from the speed with which Western technology can be adopted.

"You can fly in one container of semen and change totally the next generation," he says, adding that some animal breeds had been protected by isolation and poverty for centuries.

The programme will be looking at all livestock, including fowl and pigs. "No-one really knows how many types of goat and cattle there are, nor how they differ from each other genetically, in evolutionary terms," says Mr Cunningham. One example of the sort of animal that needs study is the sahiwal cattle of Pakistan and parts of India, which is a promising dairy breed at about the same stage of development as Europe's holstein was 200 years ago, giving less than half the milk of a modern holstein. The sahiwal thrives in the heat, unlike the holstein, but is in danger of extinction as local producers try to adapt the Holstein to tropical countries.

He wants to see the same transformation of productivity for the sahiwal that has been achieved in the West, through selective breeding using artificial insemination and embryo transfer techniques.

While the sahiwal is the most promising in dairy terms of the cattle breeds on the Indian subcontinent, there are dozens more with different characteristics. "We want to preserve, but we also want to develop," he says. "We can't leave them as they are – if they remain static they will disappear."

## Fox suspends more on-screen contracts

By David Blackwell

TWO MORE screen-traded contracts were effectively closed yesterday by the London Futures and Options Exchange (Fox).

Trading in the MGMI base metals index and arabica coffee futures has been limited to liquidation orders.

The arabica contract, set up only last March in a bid to win business from New York's successful open outcry market, never attracted much interest. In the last three months of last year, turnover was just 10 lots.

The MGMI contract had a turnover of 7,404 lots last September. Volume collapsed in October following the closure of the screen traded property futures contracts, which were the centre of a financial scandal. In the last two months of the year it was 20 lots.

Mr Phillip Thorpe, Fox chief executive, said yesterday there was not enough interest to keep the two contracts running. They have been suspended, along with rice and rubber, and could be revived at some future date.

## Danes warn of dairy products flood

By Hilary Barnes in Copenhagen

THE European Community will be flooded with Danish dairy products if the Gatt proposals now on the table are implemented, according to the Danish Dairy Board.

Denmark is the EC's largest exporter of dairy products to third countries. It accounts for 39 per cent of the EC's export of cheese to non-member countries.

The Dairy Board calculates that Denmark's cheese exports to third countries would fall gradually by about 45,000 tonnes from a total export to third countries of 150,000 tonnes a year.

Denmark also exports about 112,000 tonnes of milk powder, sterile cream and casein products to third countries, a substantial part of which will be diverted to Europe if the Gatt proposal is realised.

However, only about 15,000 tonnes of Danish butter go to third countries out of total exports of 50,000 tonnes. Other EC exporters of dairy products, such as Holland, France and Ireland, face similar problems. A total of between 4m and 5m milk equivalent tonnes of dairy products could be diverted to the European market, causing milk prices to fall by 20-25 per cent, according to the Danes.

# WORLD COMMODITIES PRICES

## MARKET REPORT

London robusta coffee prices were sharply down by the close, while New York arabicas had set life-of-contract lows for the fifth straight session at midday. The London fall came as the continuing flow of gradings removed any remaining concern over near-term supplies, dealers said. This was despite the large total uncovered position in the dollar and sterlings contracts, now expected to decline. "We saw fund selling and liquidation today with only light buying at the end on profit-taking...We've closed very badly on the charts – the only positive thing is that the market is now definitely oversold," one trader said. New York's March contract was falling early on selling from funds, speculators and countries of origin. On the LME copper closed steady as New York's Comex prices stalled near overhead targets. However possible concern over Chilean supplies is expected to curb any decline. Chile's senate has voted to allow state-owned Codelco to grant private companies controlling stakes in joint-ventures, and unions are threatening strike action. LME aluminium prices lost much of this week's gains. Japanese selling took the three-month price down to $1,274 a tonne in early trading.

Compiled from Reuters

## London Markets

SPOT MARKETS

| Crude oil (per barrel FOB) | | + or - |
|---|---|---|
| Dubai | $15.25-5.30q | -.125 |
| Brent Blend (dated) | $18.20-8.25 | -.175 |
| Brent Blend (Mar) | $18.00-8.10 | -0.15 |
| W.T.I. (1 pm est) | $18.80-8.90q | -0.35 |

| Oil products (NWE prompt delivery per tonne CIF) | | + or - |
|---|---|---|
| Premium Gasoline | $200-202 | |
| Gas Oil | $177-178 | -1 |
| Heavy Fuel Oil | $63-64 | +½ |
| Naphtha | $160-162 | +½ |

Petroleum Argus Estimates

| Other | | + or - |
|---|---|---|
| Gold (per troy oz)♣ | $355.95 | -0.10 |
| Silver (per troy oz)♣ | 418.0c | -1.5 |
| Platinum (per troy oz) | $349.00 | -3.00 |
| Palladium (per troy oz) | $86.75 | -0.00 |
| Copper (US Producer) | 101.95c | |
| Lead (US Producer) | 37c | |
| Tin (Kuala Lumpur market) | 14.19r | -0.01 |
| Tin (New York) | 253c | |
| Zinc (US Prime Western) | 62c | |
| Cattle (live weight)† | 107.37p | +1.96* |
| Sheep (live weight)†♣ | 108.37p | +5.50* |
| Pigs (live weight)† | 86.59p | +10.3* |
| London daily sugar (raw) | $208.8y | -2.8 |
| London daily sugar (white) | $235.4y | -5.5 |
| Tate and Lyle export price | £222.5 | -5.0 |
| Barley (English feed) | £123z | |
| Maize (US No. 3 yellow) | £147z | |
| Wheat (US Dark Northern) | Unq. | |
| Rubber (Mar)♥ | 50.75p | -0.50 |
| Rubber (Apr)♥ | 51.00p | -0.50 |
| Rubber (KL RSS No 1 Feb) | 215.0m | |
| Coconut oil (Philippines)§ | $750y | -10 |
| Palm Oil (Malaysian)§ | $380z | |
| Copra (Philippines)§ | $487.5t | |
| Soyabeans (US) | £148.0 | -0.5 |
| Cotton "A" index | 58.80c | -0.05 |
| Wooltops (64s Super) | 411p | |

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Mar t-Jan/Feb u-Jan/Mar v-Mar/Apr y-Feb/Mar z-Feb. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♣Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

| Raw | Close | Previous | High/Low |
|---|---|---|---|
| Mar | 183.60 | 183.40 | 183.60 181.80 |
| May | 184.40 | 183.40 | 184.00 182.20 |
| Aug | 186.40 | 185.80 | 186.40 |
| Oct | 187.20 | 187.20 | 186.60 185.60 |

| White | Close | Previous | High/Low |
|---|---|---|---|
| Mar | 265.60 | 265.5 | |
| May | 269.05 | 268.9 | |
| Aug | 272.90 | 272.4 | |
| Oct | 261.55 | 261.0 | |
| Dec | 262.54 | 262.2 | |
| Mar | 263.02 | 263.0 | |

Turnover: Raw 480 (675) lots of 50 tonnes. White - (1649)
Paris- White (FFr per tonne): Mar 1433.28, May 1476.38

CRUDE OIL – IPE $/barrel

| | Latest | Previous | High/Low |
|---|---|---|---|
| Mar | 18.07 | 18.24 | 18.29 17.97 |
| Apr | 17.92 | 18.13 | 18.18 17.85 |
| May | 17.86 | 18.05 | 18.07 17.79 |
| Jun | 17.80 | 18.00 | 18.02 17.80 |
| Jul | 18.00 | 17.95 | 18.00 |
| Aug | 18.07 | 18.00 | 18.07 18.00 |
| IPE Index | 18.27 | 18.33 | |

Turnover 13327 (19338)

GAS OIL – IPE $/tonne

| | Latest | Previous | High/Low |
|---|---|---|---|
| Feb | 172.50 | 173.50 | 174.00 172.25 |
| Mar | 170.50 | 171.50 | 171.75 170.25 |
| Apr | 167.25 | 168.25 | 168.75 167.25 |
| May | 165.00 | 166.00 | 166.50 165.00 |
| Jun | 166.25 | 167.00 | 167.00 166.00 |
| Jul | 167.50 | 168.50 | 167.50 167.00 |
| Aug | 169.50 | 170.00 | 169.50 169.00 |
| Sep | 171.50 | 171.50 | 171.50 170.50 |
| Oct | 173.50 | 174.00 | 173.50 173.00 |

Turnover 8645 (12801) lots of 100 tonnes

WOOL

Auction sales so far this year have revealed no clear direction in wool prices. Some finer merinos have tended cheaper, whereas broader categories have been firm or slightly dearer. There is also continuing divergence between better style wools and those adversely affected by drought. The AWC market indicator has risen only one cent compared with a week ago, and is 581c. Apart from minor and mixed price changes in terms of the Australian dollar, fluctuations in that currency, loosely related to the US dollar, have also kept buyers cautious.

COCOA – London FOX £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| Mar | 724 | 720 | 724 719 |
| May | 750 | 748 | 752 746 |
| Jul | 777 | 775 | 778 774 |
| Sep | 800 | 796 | 801 796 |
| Dec | 831 | 829 | 832 827 |
| Mar | 862 | 859 | 863 860 |
| May | 881 | 877 | 881 877 |

Turnover: 2584 (5852) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jan.28 900.25 (906.18) 10 day average for Jan.29 913.06 (913.07)

COFFEE – London FOX $/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| Jan | 940 | 971 | 961 940 |
| Mar | 930 | 970 | 965 925 |
| May | 930 | 961 | 957 920 |
| Jul | 948 | 978 | 970 940 |
| Sep | 968 | 992 | 988 975 |
| Nov | 987 | | 1008 995 |

Turnover: 3200 (1239) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jan. 28: Comp. daily 59.10 (59.83) 15 day average 61.67 (61.88)
Sterling close: January £515 , March £516

POTATOES – London FOX £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| Apr | 118.5 | 118.3 | 118.3 |
| Nov | 89.0 | | 87.0 |

Turnover 25 (69) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

| | Close | Previous | High/Low |
|---|---|---|---|
| Feb | 128.00 | | 128.00 |
| Apr | 128.50 | 129.50 | 128.50 |

Turnover 110 (25) lots of 20 tonnes.

FREIGHT – London FOX $10/Index point

| | Close | Previous | High/Low |
|---|---|---|---|
| Jan | 1452 | 1461 | 1455 1452 |
| Feb | 1450 | 1460 | 1458 1437 |
| Mar | 1485 | 1492 | 1485 1477 |
| Apr | 1504 | 1503 | 1504 1485 |
| Jul | 1270 | 1289 | 1270 |
| BFI | 1447 | 1468 | |

Turnover 209 (292)

GRAINS – London FOX £/tonne

| Wheat | Close | Previous | High/Low |
|---|---|---|---|
| Mar | 127.15 | 127.20 | 127.40 127.00 |
| May | 130.50 | 130.65 | 130.60 130.45 |

| Barley | Close | Previous | High/Low |
|---|---|---|---|
| Mar | 119.50 | 119.50 | 119.50 |
| May | 122.25 | | 122.50 |

Turnover: Wheat 80 (173). Barley 35 (0).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

| | Close | Previous | High/Low |
|---|---|---|---|
| Feb | 118.4 | 119.0 | 119.2 118.0 |
| Mar | 118.0 | 116.5 | 117.5 116.0 |
| Apr | 115.5 | 115.0 | 115.5 |
| Jun | 113.5 | 114.5 | 113.5 113.0 |
| Sep | 107.0 | | 107.0 |

Turnover:80 (140) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

| | Close | Previous | High/Low | AM Official | Kerb close | Open Interest |
|---|---|---|---|---|---|---|
| Aluminium, 99.7% purity ($ per tonne) | | | | | | Total daily turnover 30,498 lots |
| Cash | 1254-5 | 1273.5-4.5 | | 1264.5-5.5 | | |
| 3 months | 1279-80 | 1298-9 | 1294/1275 | 1289-90 | 1277-8 | 155,889 lots |
| Copper, Grade A (£ per tonne) | | | | | | Total daily turnover 23,796 lots |
| Cash | 1211.5-2.5 | 1214.5-5.5 | 1219/1215 | 1215-5.5 | | |
| 3 months | 1238-9 | 1242-3 | 1248/1237 | 1243-3.5 | 1233.5-4.0 | 119,035 lots |
| Lead (£ per tonne) | | | | | | Total daily turnover 1,939 lots |
| Cash | 280-1 | 281.75-2.25 | 280.5/280.25 | 280.5-0.75 | | |
| 3 months | 282-2.5 | 283.75-4.00 | 283.5/281.5 | 282.5-3.0 | 281.5-2.5 | 10,635 lots |
| Nickel ($ per tonne) | | | | | | Total daily turnover 5,346 lots |
| Cash | 7670-80 | 7615-25 | | 7665-70 | | |
| 3 months | 7750-5 | 7700-10 | 7760/7680 | 7740-50 | 7755-60 | 21,016 lots |
| Tin ($ per tonne) | | | | | | Total daily turnover 1,284 lots |
| Cash | 5465-75 | 5460-5 | 5475/5472 | 5473-4 | | |
| 3 months | 5525-30 | 5520-5 | 5550/5520 | 5530-5 | 5530-5 | 5,238 lots |
| Zinc, Special High Grade ($ per tonne) | | | | | | Total daily turnover 14,168 lots |
| Cash | 1170-2 | 1181-3 | 1175/1175 | 1177-8 | | |
| 3 months | 1163-4 | 1168-70 | 1176/1163 | 1168-9 | 1163-4 | 44,157 lots |

LME Closing £/$ rate:
SPOT: 1.8000 3 months: 1.7825 6 months: 1.7676 9 months: 1.7341

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

| Gold (fine oz) | $ price | £ equivalent |
|---|---|---|
| Close | 355.70-356.20 | |
| Opening | 355.50-355.80 | |
| Morning fix | 355.40 | 196.696 |
| Afternoon fix | 354.85 | 195.725 |
| Day's high | 356.25-356.55 | |
| Day's low | 354.70-355.00 | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 3.28 | 6 months | 3.23 |
| 2 months | 3.28 | 12 months | 3.23 |
| 3 months | 3.27 | | |

| Silver fix | p/fine oz | US cts equiv |
|---|---|---|
| Spot | 231.00 | 416.00 |
| 3 months | 237.00 | 420.00 |
| 6 months | 242.00 | 424.00 |
| 12 months | 254.00 | 434.00 |

GOLD COINS
(Prices supplied by Engelhard Metals)

| | $ price | £ equivalent |
|---|---|---|
| Krugerrand | 355.00-356.00 | 195.75-196.25 |
| Maple leaf | 365.00-366.00 | 201.75-202.25 |
| New Sovereign | 86.50-87.50 | 47.75-48.25 |

TRADED OPTIONS

| Coffee | Mar | Mar |
|---|---|---|
| 450 | 68 | 0 |
| 500 | 20 | 7 |
| 550 | 2 | 39 |

| Cocoa | Mar | May | Mar | May |
|---|---|---|---|---|
| 700 | 31 | 54 | 7 | 12 |
| 725 | 15 | 45 | 17 | 21 |
| 750 | 8 | 31 | 34 | 32 |

| Brent Crude | Mar | Apr | Mar | Apr |
|---|---|---|---|---|
| 1700 | 0 | 0 | 0 | 0 |
| 1750 | 80 | 0 | 7 | 0 |
| 1800 | 41 | 71 | 24 | 63 |

## New York

GOLD 100 troy oz.; $/troy oz.

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 356.1 | 355.8 | 0 | 0 |
| Feb | 356.1 | 355.9 | 357.0 | 354.7 |
| Mar | 357.1 | 355.8 | 0 | 0 |
| Apr | 358.2 | 357.9 | 359.1 | 356.8 |
| Jun | 360.3 | 360.0 | 360.9 | 359.0 |
| Aug | 362.4 | 362.2 | 363.0 | 363.0 |
| Oct | 364.5 | 364.3 | 0 | 0 |
| Dec | 366.7 | 366.5 | 0 | 0 |
| Feb | 369.0 | 368.8 | 0 | 0 |

PLATINUM 50 troy oz; $/troy oz.

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Apr | 349.4 | 351.4 | 352.5 | 348.6 |
| Jul | 349.4 | 351.4 | 350.5 | 348.5 |
| Oct | 352.4 | 353.9 | 353.0 | 353.0 |
| Jan | 352.4 | 354.4 | 0 | 0 |
| Jan | 354.4 | 355.0 | 357.5 | 358.6 |

SILVER 5,000 troy oz; cents/troy oz.

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 423.4 | 417.3 | 0 | 0 |
| Feb | 423.4 | 417.3 | 421.5 | 421.5 |
| Mar | 424.6 | 418.5 | 426.0 | 415.0 |
| May | 427.9 | 421.9 | 430.0 | 419.5 |
| Jul | 431.1 | 425.1 | 431.5 | 422.5 |
| Sep | 434.5 | 428.5 | 0 | 0 |
| Dec | 440.1 | 434.1 | 441.0 | 432.0 |
| Jan | 442.0 | 436.0 | 0 | 0 |
| Mar | 446.0 | 440.1 | 447.0 | 439.0 |
| May | 450.3 | 444.4 | 0 | 0 |

HIGH GRADE COPPER 25,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Jan | 98.80 | 98.90 | 98.70 | 98.70 |
| Feb | 98.90 | 98.80 | 99.50 | 98.70 |
| Mar | 99.10 | 99.00 | 99.95 | 98.65 |
| Apr | 98.95 | 98.90 | 98.60 | 98.60 |
| May | 98.85 | 98.85 | 99.70 | 98.40 |
| Jun | 98.85 | 98.85 | 98.50 | 98.50 |
| Jul | 98.80 | 98.80 | 99.40 | 98.50 |
| Aug | 98.85 | 98.80 | 0 | 0 |
| Sep | 98.90 | 98.95 | 98.90 | 98.50 |
| Oct | 98.90 | 98.85 | 0 | 0 |

ORANGE JUICE 15,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 144.70 | 143.45 | 144.70 | 143.20 |
| May | 145.30 | 143.95 | 145.30 | 143.80 |
| Jul | 146.35 | 144.00 | 145.80 | 144.60 |
| Sep | 142.55 | 141.00 | 142.80 | 142.50 |
| Nov | 133.50 | 132.65 | 0 | 0 |
| Mar | 133.50 | 132.40 | 0 | 0 |
| May | 133.50 | 132.40 | 0 | 0 |

CRUDE OIL (Light) 42,000 US galls $/barrel

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 18.89 | 19.17 | 19.23 | 18.78 |
| Apr | 19.02 | 19.29 | 19.37 | 18.92 |
| May | 19.10 | 19.31 | 19.40 | 19.04 |
| Jun | 19.11 | 19.29 | 19.36 | 19.10 |
| Aug | 19.12 | 19.26 | 19.35 | 19.10 |
| Sep | 19.05 | 19.23 | 19.31 | 19.10 |
| Oct | 19.05 | 19.25 | 19.30 | 19.10 |
| Nov | 19.10 | 19.23 | 19.25 | 19.25 |
| Dec | 19.10 | 19.28 | 19.20 | 19.20 |

HEATING OIL 42,000 US galls, cents/US galls

| | Latest | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 5380 | 5410 | 5450 | 5360 |
| Mar | 5400 | 5421 | 5470 | 5370 |
| Apr | 5329 | 5340 | 5370 | 5300 |
| May | 5250 | 5248 | 5280 | 5235 |
| Jun | 5210 | 5220 | 5260 | 5210 |
| Jul | 5225 | 5225 | 5265 | 5225 |
| Aug | 5305 | 5300 | 5315 | 5300 |
| Oct | 5539 | 5530 | 0 | 0 |
| Nov | 5660 | 5630 | 5660 | 5660 |

COCOA 10 tonnes;$/tonnes

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 1191 | 1179 | 1197 | 1183 |
| May | 1228 | 1215 | 1235 | 1223 |
| Jul | 1266 | 1256 | 1276 | 1268 |
| Sep | 1296 | 1286 | 1296 | 1296 |
| Dec | 1338 | 1323 | 1338 | 1333 |
| Mar | 1365 | 1355 | 1370 | 1364 |
| May | 1386 | 1376 | 0 | 0 |
| Jul | 1406 | 1396 | 0 | 0 |
| Sep | 1436 | 1426 | 0 | 0 |
| Dec | 1466 | 1456 | 0 | 0 |

COFFEE "C" 37,500lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 73.85 | 74.05 | 74.70 | 73.50 |
| May | 76.70 | 76.85 | 77.70 | 76.45 |
| Jul | 79.60 | 79.70 | 80.20 | 79.25 |
| Sep | 82.45 | 82.50 | 83.20 | 82.25 |
| Dec | 86.10 | 86.10 | 86.50 | 85.85 |
| Mar | 89.20 | 89.15 | 89.50 | 89.50 |
| May | 92.00 | 91.75 | 0 | 0 |

SUGAR WORLD "11" 112,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 8.34 | 8.35 | 8.39 | 8.28 |
| May | 8.44 | 8.41 | 8.45 | 8.34 |
| Jul | 8.46 | 8.44 | 8.47 | 8.36 |
| Oct | 8.46 | 8.49 | 8.50 | 8.39 |
| Mar | 8.53 | 8.53 | 8.58 | 8.45 |
| May | 8.60 | 8.62 | 0 | 0 |

COTTON 50,000; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 53.95 | 53.38 | 54.05 | 53.36 |
| May | 55.66 | 55.37 | 55.66 | 55.32 |
| Jul | 57.30 | 56.90 | 57.40 | 56.81 |
| Oct | 59.40 | 59.41 | 59.70 | 59.31 |
| Dec | 60.20 | 60.17 | 60.60 | 60.00 |
| Mar | 61.75 | 61.70 | 0 | 0 |
| May | 62.30 | 62.22 | 62.35 | 62.35 |
| Jul | 62.90 | 62.95 | 0 | 0 |

INDICES

REUTERS (Base: September 18 1931 = 100)

| Jan.29 | Jan.28 | mnth ago | yr ago |
|---|---|---|---|
| 1586.4 | 1584.2 | 1594.1 | 1682.7 |

DOW JONES (Base: Dec. 31 1974 = 100)

| | Jan.28 | Jan.27 | mnth ago | yr ago |
|---|---|---|---|---|
| Spot | 115.62 | 115.20 | - | 122.23 |
| Futures | 122.93 | 122.62 | - | 125.34 |

## Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 576/2 | 581/4 | 585/6 | 575/0 |
| May | 582/2 | 588/2 | 592/2 | 580/4 |
| Jul | 588/0 | 596/4 | 601/0 | 592/4 |
| Aug | 596/0 | 600/0 | 604/0 | 595/0 |
| Sep | 600/0 | 602/4 | 608/4 | 600/0 |
| Nov | 607/6 | 611/0 | 614/6 | 607/0 |
| Jan | 616/4 | 619/0 | 623/0 | 616/4 |
| Mar | 626/4 | 628/4 | 630/0 | 626/4 |

SOYABEAN OIL 60,000 lbs; cents/lb

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 19.38 | 19.46 | 19.59 | 19.35 |
| May | 19.67 | 19.75 | 19.88 | 19.67 |
| Jul | 19.96 | 20.04 | 20.16 | 19.96 |
| Aug | 20.15 | 20.19 | 20.32 | 20.15 |
| Sep | 20.28 | 20.32 | 20.42 | 20.28 |
| Oct | 20.35 | 20.38 | 20.42 | 20.35 |
| Dec | 20.65 | 20.74 | 20.87 | 20.65 |
| Jan | 20.65 | 20.75 | 0 | 0 |

SOYABEAN MEAL 100 tons; $/ton

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 176.8 | 178.1 | 180.3 | 176.7 |
| May | 178.1 | 180.2 | 181.5 | 178.0 |
| Jul | 180.3 | 181.1 | 183.3 | 180.1 |
| Aug | 180.7 | 181.8 | 183.8 | 180.5 |
| Sep | 182.0 | 182.6 | 184.6 | 181.5 |
| Oct | 186.6 | 186.5 | 188.0 | 186.5 |
| Dec | 198.5 | 199.0 | 200.5 | 198.5 |
| Mar | 201.0 | 200.5 | 201.0 | 201.0 |

MAIZE 5,000 bu min; cents/56lb bushel

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 263/2 | 264/2 | 266/0 | 263/0 |
| May | 269/4 | 270/4 | 271/2 | 269/2 |
| Jul | 274/4 | 275/2 | 276/0 | 274/0 |
| Sep | 271/2 | 271/4 | 272/4 | 270/6 |
| Dec | 269/4 | 268/4 | 269/6 | 267/4 |
| Mar | 274/4 | 274/6 | 275/6 | 273/4 |
| May | 279/0 | 279/4 | 280/0 | 279/0 |

WHEAT 5,000 bu min; cents/60lb-bushel

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Mar | 441/4 | 440/4 | 442/0 | 436/4 |
| May | 421/2 | 419/4 | 422/0 | 418/0 |
| Jul | 367/4 | 369/0 | 368/4 | 366/6 |
| Sep | 391/4 | 391/6 | 391/4 | 390/2 |
| Dec | 399/6 | 399/4 | 400/0 | 398/4 |
| Mar | 401/0 | 400/0 | 401/0 | 399/0 |

LIVE CATTLE 40,000 lbs; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 76.82 | 75.85 | 76.87 | 75.72 |
| Apr | 77.27 | 76.72 | 77.30 | 76.67 |
| Jun | 72.42 | 72.02 | 72.45 | 72.10 |
| Aug | 68.95 | 68.57 | 69.02 | 68.55 |
| Oct | 69.57 | 69.20 | 69.60 | 69.05 |
| Dec | 70.30 | 70.00 | 70.50 | 69.90 |
| Feb | 70.00 | 69.50 | 70.00 | 69.50 |

LIVE HOGS 40,000 lb; cents/lbs

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 41.16 | 41.15 | 41.45 | 40.90 |
| Apr | 40.00 | 40.10 | 40.35 | 39.80 |
| Jun | 43.95 | 44.10 | 44.27 | 43.80 |
| Jul | 44.45 | 44.47 | 44.55 | 44.17 |
| Aug | 43.17 | 43.17 | 43.45 | 43.05 |
| Oct | 40.35 | 40.40 | 40.50 | 40.05 |
| Dec | 43.25 | 43.15 | 43.57 | 43.10 |
| Feb | 44.65 | 44.70 | 0 | 44.65 |

PORK BELLIES 40,000 lbs; cents/lb

| | Close | Previous | High/Low | |
|---|---|---|---|---|
| Feb | 32.92 | 33.70 | 33.75 | 32.85 |
| Mar | 33.72 | 34.37 | 34.40 | 33.62 |
| May | 34.87 | 35.35 | 35.40 | 34.75 |
| Jul | 35.60 | 36.25 | 36.40 | 35.65 |
| Aug | 34.57 | 34.77 | 35.60 | 34.60 |

## LONDON STOCK EXCHANGE

# Initial losses in equities soon reduced

By Terry Byland, UK Stock Market Editor

THE UK stock market bounced back from early losses yesterday, with firmness in sterling and a promising start on Wall Street helping offset the mild disappointment which had greeted President Bush's State of the Union message. Equity trading in London remained unimpressive but UK opinion polls continued to favour the electoral prospects of Mr John Major's government, and the late improvement in sterling revived optimism for an early cut in domestic base rates.

The FT-SE Index closed at 2,546.5, with the final loss of 5.5 on the day representing a two-thirds recovery from the initial setback. Equities gave ground in early trading in London, brushing off Wall Street's peak close overnight, which had preceded President Bush's speech.

| Account Dealing Dates | | |
|---|---|---|
| *First Dealings: | | |
| Jan 13 | Jan 27 | Feb 10 |
| Option Declarations: | | |
| Jan 23 | Feb 6 | Feb 20 |
| Last Dealings: | | |
| Jan 24 | Feb 7 | Feb 21 |
| Account Day: | | |
| Feb 3 | Feb 17 | Mar 2 |

*New-time dealings may take place from 8.30 am two business days earlier.

While the UK market was keeping a close eye on Wall Street, investment confidence also continued to suffer from the pessimistic tone of the latest business opinion survey from the Confederation of British Industry, which indicated a big fall in confidence among UK businessmen.

UBS Phillips & Drew commented that the survey implied that weakening in the supply side of the UK economy "bodes ill" for the trade performance when domestic activity recovers. Nor was there any relief yesterday from the steady flow of corporate profits downgradings for leading UK companies by City analysts.

The big investment funds backed off from equities yesterday, and the Seaq network reported volume of 549.7m shares, little changed from Tuesday's 551.8m; retail volume on Tuesday totalled an unexciting £952m.

The reduction in institutional demand for UK equities is believed to reflect the uncertainties introduced by the apparent opening of the UK election season, which has brought increased focus on day to day opinion poll readings.

Utility stocks, seen as at risk in the event of a Labour election victory, again responded strongly to the apparent improvement in the government's opinion ratings. However, many international blue chips were held back by weakness in the US dollar in which many of their profits are recorded.

The exception was Fisons, the pharmaceutical group whose shares have traced an erratic pattern recently but have now attracted speculative support again. Elsewhere among the drug stocks, Wellcome provided one of the few firm spots, while Glaxo continued to react from the strong performance during the early sessions of this year.

The Footsie Index was held back towards the close by a dull showing from the leading oil stocks, with Shell running into a bout of international selling in late dealings.

However, sluggish turnover in the stock market in no way inhibited the institutions from activity elsewhere in the City of London. Both First Leisure, Britain's largest leisure industry company and Medeva, the pharmaceutical group, featured in strongly-attended presentations to fund managers hosted by UK brokerage houses.

Stock market analysts continued to pursue policies of stock and sector selection, rather than trying to predict the general outlook for equities. At Goldman Sachs, the US investment bank, Sushil Wadhwani recommended a high relative yield strategy and recommended food retailing, life assurance, aerospace and electronics stocks.

## Leisure stake sold

NEARLY 10 per cent of the equity of First Leisure, the biggest pure UK leisure group, was sold into the market yesterday by London Merchant Securities, a move which left the ten-pin bowling and disco operator down 8 at 296p. The line of 15.5m shares was placed at 283p by Cazenove.

The placing was seen in the market as an attempt by Lord Rayne, chairman of London Merchant, to introduce some liquidity into the stock of First Leisure, where he is a director and due to take the chair in November from Lord Delfont. London Merchant's stake in First Leisure has now been reduced to 15.3 per cent.

Last night, First Leisure chief executive Mr John Conlan said: "We understand that London Merchant wanted to reduce its stake in First Leisure to below 50 per cent of Merchant's own market capitalisation."

### Fisons active

Fisons advanced 13 to 382p in heavy turnover of 8.3m shares on further consideration of a product relicensing and renewed bid speculation. There was also busy trading in Fisons in the options market.

The pharmaceuticals company has announced that it will restart manufacture of its eye preparation Opticrom in the UK, following regulatory approval. Opticrom is currently banned in the US and the move was seen as the first stage of its reinstatement. Also, market talk continued to see the company as vulnerable to predators. Analysts felt that news of the Hanson decision against bidding for ICI has left the market casting around for possibilities.

Kleinwort Benson continued to be active in the stock yesterday. It has been a buyer since the new year, when it singled Fisons out for recommendation in what it otherwise sees as a neutral sector, arguing that it looks very cheap in the light of 1993 earnings. Many of the 1993 hopes are pinned on US approval for the company's anti-asthma drug Tilade.

Commenting on the recent speculation, Ms Barbara Arzymanow of Kleinwort's pharmaceuticals team said: "Companies specialising in asthma products must be noticing that Fisons' problems only relate to manufacturing difficulties."

SmithKline Beecham, down 5 at 918p, saw good two-way business as selling was encouraged by a forecast profits cut by County NatWest and buyers moved in on weakness in the stock.

Dollar weakness and good results from Merck, of the US, the world's largest drug company, adversely affected Glaxo, which fell nearly 20 at one stage before recovering to close 7 off at 848p. Merck pointed to the very healthy performance of the anti-ulcer drug Losec, which is a direct competitor to Glaxo's principal earner Zantac. Further, Nomura was advising clients to take profits in Glaxo.

Food and detergents group Unilever gained 8 to 921p against the market as investors took heart from a solid rise in second-quarter earnings from Procter & Gamble.

International trading group Lonrho, already hit after reporting a lowered dividend and sharply reduced profits, suffered a further blow yesterday on a report that it would lose its UK import and distribution contract with German carmakers Volkswagen and Audi which expires at the end of 1993. The shares fell 8 to 115½p in spite of a claim by Lonrho that it hopes to extend the contract.

Caution ahead of a television documentary last night left Hanson 5 off at 208p with 12m shares traded.

British Gas was among the best performers among the Footsie constituents, the stock advancing 5¼ to 248p on good turnover of 5.1m shares. Specialists said Gas shares were stimulated by an aggressive institutional buyer responding to Gas's yield attractions, strong demand in the options market and some brokers reaffirmining their buy recommendations.

Oil majors diverged, with BP outperforming the market and Shell substantially underperforming. US funds were said to have switched from the latter to the former. Much of the switching was said to have been carried out overnight and in the US, with the remainder transacted in London early in the session.

BP eased a fraction to 289p on heavy turnover of 9.6m shares, while Shell declined 8 to 484p on 3m. County NatWest issued a note detailing a cut in oil demand growth in 1992 and mentioned "very poor Q4 earnings from the US oil majors". The broker said it expected a dull pattern in the oil stocks to continue over the Q4 results and the forthcoming February Opec meeting, but said it looked for Shell to prove more robust than BP.

There have been ominous rumblings of exceptionally poor Q4 figures from BP, expected on February 13, with the market bracing itself for a sharply higher tax charge.

Turnover in Lucas Industries soared to a five-year high as 11m shares changed hands after UBS Phillips & Drew weighed in with a hefty profits downgrading.

The securities house reduced its current-year figure by £40m to £20m and the following year's forecast by 50 per cent to £45m. Mr Tony Lancelot, at UBS, said: "Competition is intensifying in many areas where Lucas operates and recovery is becoming more distant." The shares retreated 6 to 112p, although dealers noted a certain amount of "bottom fishing".

Dowty Group was another victim of a profits downgrading. The shares lost 7½ to 135p after Smith New Court reduced its current-year profits estimate by £3m to £19m and next year's by £6m to £27m.

BM Group continued to bask in the glow of its bid for Thomas Robinson announced last week. The shares jumped 21 to 410p as dealers continued to appreciate the deal. News of US defence cuts weakened Smiths Industries, a military contractor in the US. The stock declined 6 to 280p.

The power generators, where investors have until February 4 to pay the next 70p a share instalment on the two stocks, moved sharply higher in the wake of recent broker recommendations.

County NatWest was said to have given the stocks a strong push yesterday. They were additionally boosted by recent opinion polls indicating a Conservative lead over Labour. There were also suggestions that a poll expected this morning would confirm a Tory lead. National Power moved up 6 to 224p and PowerGen added 7 at 287p. The Scottish generators, which have underperformed the rest of the utilities since their flotations last summer, managed minor gains.

Sedgwick, the insurance broker, tumbled 12 to 214p after some determined selling by one of the big US investment banks.

Negative sentiment on hotel stocks continued following the news that one leading broker had received reports of poor end-of-year occupancy figures in London. Forte lost 4 to 231p, Savoy 'A' slipped 8 to 635p and Ladbroke eased 2 to 214p.

Profit-taking in Airtours left the holiday charter group off 7 at 281p. Pickwick Group suffered similar treatment, following Tuesday's takeover bid by Carlton Communications, losing 5 to 235p.

Nervousness ahead of today's Rank Organisation finals took 14 off the stock to 595p as talk of rights issues and dividend cuts continued to circulate.

Buying on economic recovery hopes continued to spur Scottish Television. The shares rose 15 to 755p, making a jump of 171p or nearly 30 per cent since the start of the year.

W.H. Smith "A" shares were unchanged at 459p in spite of profit figures above most expectations and an increase to 4.3p from 4p in the interim dividend. The shares touched 468p in initial response to news that half-year trading profits had improved to £50.1m from £34.9m, but receded after Sir Simon Hornby, the group chairman, said "consumer confidence remains at a low level and we see no prospect of a significant recovery in the economy over the next few months".

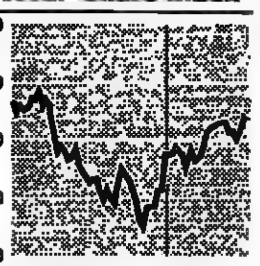
In a generally firm food retailing sector, J. Sainsbury gained 5 to 374p. In contrast, Farepak lost 3 to 270p after an increased half-year loss but a rise in the interim dividend.

BET picked up from the day's low after it was announced that chief executive Mr John Clark and another BET director bought stock. The shares closed 7 off at 152p.

**MARKET REPORTERS:**
**Peter John, Joel Kibazo, Colin Millham, Chris Price, Steve Thompson.**

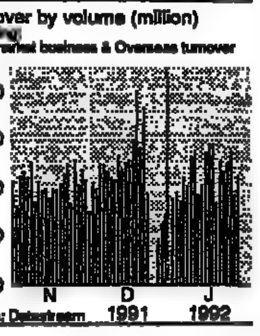
■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 19.

### FT-A All-Share Index




### Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover




Source: Datastream

### NEW HIGHS AND LOWS FOR 1991/92

NEW HIGHS (79).
BRITISH FUNDS (9) Tr. 8pc 1992, Fd. 6pc 1993, Cv. 10pc 1996, Tr. 8¾pc 1997, Ex. 9¾pc 1998, Tr. 8¾pc '96-99, Tr. 8½pc 1999, Tr. 9pc 2001, Tr. [illegible], BANKS (1) HSBC, BREWERS & DISTILLERS (1) Holt (J), BUSINESS SERVICES (2) Barbour Index, RCO, CHEMICALS (4) BTP, Courtaulds, Pyrco, Yorkshire, ELECTRONICS (6) Elect. Data Proc., Eurotherm Intl., Hoskyns, MTL Instrs., Sage, ENGINEERING AEROSPACE (1) FR, ENGINEERING GENERAL (6) Black & Decker, Fairey, TT, Vickers, Weir, Wheeco, FOOD MANUFACTURING (4) Safeway (Ch), Unilever, Do. N/V, [illegible], FOOD RETAILING (2) Farepak, Morrison (Wm), HEALTH & HOUSEHOLD (2) Medeva, Seton Healthcare, HOTELS & LEISURE (1) Airtours, INVESTMENT TRUSTS (15) Abtrust Prfd. Zero Prf., City of Oxford Zero Prf., Fleming Intl. High Zero Prf., Gartmore Amer. Secs. Zero Prf., Gartmore Value Zero Prf., General Cons. Stppd. Prf., I & S Options Inc. Zero Prf., Kleinwort High Inc. Zero Prf., Latin Amer. Inv., Do. Wrrnts., River & Merc. Amer. Wrrnts., River Plate Zero Prf., Scot. Natl. Zero Prf., Do. Stppd. Prf., TR Tech. Zero Prf., MEDIA (6) Central ITV, Grampian TV A, Headline Book Publs., Radio Clyde, Scottish TV, Ulster TV, MERCHANT BANKS (1) Warburg (SG) 8pc Prf., MOTORS (1) Central Car Auctn., OIL & GAS (1) Bidsan, OTHER FINANCIAL (1) Templeton Galbraith, PACKAGING, PAPER & PRINTING (2) Bowater, Do. 7.75pc Prf., Boxmore Intl., STORES (3) Bacal, Next, TEXTILES (2) Leeds, Stoddard.

NEW LOWS (31).
CANADIANS (1) Abbot Energy, BUILDING MATERIALS (1) Rockel, BUSINESS SERVICES (1) Gardiner, CHEMICALS (1) Anglo United, CONGLOMERATES (1) Fleece, CONTRACTING & CONSTRUCTION (2) Laing (J), Do. A, ELECTRONICS (1) [illegible], HEALTH & HOUSEHOLD (2) Hospital Corp., [illegible], INSURANCE BROKERS (1) Archer (AJ), INSURANCE LIFE (1) Lon. & Manchester, INVESTMENT TRUSTS (5) English Natl. Prfd., Gartmore Scotland Cap., Gartmore Value, M & G Inc. Geared Units, North Amer. Gas, MISCELLANEOUS (1) Eurocopy, OIL & GAS (3) Bow Valley, Brit. Borneo, Sceptre Res., OTHER FINANCIAL (3) First Pacific, Natl. Home Loans 7½pc Prf., World Trust Fund., PROPERTY (4) Capital & Counties, Chesterfield, Do. 5.25pc Prf., Derwent Valley, STORES (1) Caners, TRANSPORT (1) Jacobs (JI), MINES (1) Colby.

### FINANCIAL TIMES STOCK INDICES

| | Jan 29 | Jan 28 | Jan 27 | Jan 24 | Jan 23 | Year Ago | 1991/92 High | 1991/92 Low | Since Compilation High | Since Compilation Low |
|---|---|---|---|---|---|---|---|---|---|---|
| Government Secs | 87.90 | 87.84 | 87.74 | 87.70 | 87.74 | 84.04 | 87.94 (18/9/91) | 82.17 (2/1/91) | 127.4 (9/1/35) | 49.18 (3/1/75) |
| Fixed Interest | 100.68 | 99.98 | 99.86 | 99.87 | 99.91 | 91.66 | 100.68 (29/1/92) | 90.59 (2/1/91) | 105.4 (28/11/47) | 50.53 (3/1/75) |
| Ordinary Share ● | 1965.8 | 1973.8 | 1966.4 | 1944.9 | 1963.5 | 1686.5 | 2108.3 (2/9/91) | 1606.3 (16/1/91) | 2108.3 (2/9/91) | 49.4 (26/6/40) |
| Gold Mines | 148.9 | 153.3 | 152.8 | 152.6 | 154.6 | 137.1 | 222.8 (11/7/91) | 127.0 (22/2/91) | 734.7 (15/2/83) | 43.5 (26/10/71) |
| FT-SE 100 Share | 2546.5 | 2552.0 | 2539.9 | 2510.4 | 2525.3 | 2152.8 | 2679.6 (2/9/91) | 2054.8 (16/1/91) | 2679.6 (2/9/91) | 986.9 (23/7/84) |
| FT-SE Eurotrack 200 | 1169.32 | 1178.40 | 1176.71 | 1164.15 | 1166.67 | 988.38 | 1198.60 (3/9/91) | 938.62 (16/1/91) | 1198.60 (3/9/91) | 938.62 (16/1/91) |
| ●Ord. Div. Yield | 4.64 | 4.63 | 4.65 | 4.70 | 4.67 | 5.68 | | | | |
| ●Earning Yld %(full) | 6.96 | 6.94 | 6.97 | 7.05 | 7.00 | 11.84 | | | | |
| ●P/E Ratio(Net)(☆) | 18.06 | 18.11 | 18.03 | 17.83 | 17.96 | 10.22 | | | | |
| SEAQ Bargns 4.45pm | 27,388 | 27,881 | 26,965 | 33,312 | 28,215 | 27,307 | | | | |
| Equity Turnover(£m)† | - | 952.0 | 821.4 | 1,004.6 | 990.3 | 875.49 | | | | |
| Equity Bargains† | - | 27,458 | 27,352 | 32,582 | 28,747 | 25,382 | | | | |
| Shares Traded (ml)† | - | 450.3 | 376.6 | 539.9 | 503.1 | 481.8 | | | | |

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 17.04

Ordinary Share Index, Hourly changes — Day's High 1970.5 — Day's Low 1956.9

| Open | 9 am | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm | 4 pm |
|---|---|---|---|---|---|---|---|---|
| 1970.5 | 1962.8 | 1959.0 | 1964.4 | 1959.1 | 1957.7 | 1957.4 | 1959.2 | 1961.0 |

FT-SE 100, Hourly changes — Day's High 2552.6 — Day's Low 2535.1

| Open | 9 am | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm | 4 pm |
|---|---|---|---|---|---|---|---|---|
| 2552.6 | 2541.1 | 2538.6 | 2544.8 | 2538.8 | 2538.3 | 2535.7 | 2537.8 | 2540.4 |

FT-SE Eurotrack 200, Hourly changes — Day's High 1176.29 — Day's Low 1167.56

| Open | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm |
|---|---|---|---|---|---|---|
| 1173.19 | 1174.35 | 1174.83 | 1171.46 | 1170.72 | 1169.64 | 1169.82 |

### GILT EDGED ACTIVITY

| Indices* | Jan 28 | Jan 27 |
|---|---|---|
| Gilt Edged Bargains | 84.4 | 90.9 |
| 5 ~ Day average | 85.6 | 83.3 |

*SE Activity 1974.
†Excluding intra-market business and Overseas turnover.

London report and latest Share Index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

### TRADING VOLUME IN MAJOR STOCKS

| | Volume 000's | Closing Price | Day's change | | Volume 000's | Closing Price | Day's change | | Volume 000's | Closing Price | Day's change | | Volume 000's | Closing Price | Day's change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ADT | 19 | 389 | -2 | Cookson | 514 | 113 | -1 | Lucas | 11,000 | 112 | -6 | Shell Transport | 3,000 | 484 | -8 |
| ASDA Group | 5,200 | 35 | -½ | Courtaulds | 737 | 531 | +7 | MB Caradon | 213 | 265 | -1 | Siebe | 698 | 582 | -7 |
| Abbey National | 641 | 280 | -2 | Dalgety | 1,200 | 352 | -3 | MEPC | 145 | 390 | -6 | Slough Ests | 290 | 229 | +3 |
| Albert Fisher | 3,800 | 77 | -4 | De La Rue | 141 | 515 | +4 | [illegible] | 11 | 318 | -2 | Smith (W.H.) A | 978 | 459 | |
| Allied-Lyons | 1,100 | 645 | +5 | Dixons | 887 | 225 | +1 | Marks & Spencer | 2,800 | 295 | -4 | Smith & Nephew | 2,000 | 147½ | -1½ |
| Amstrad | 250 | 28 | | ECC Group | 1,600 | 486 | +1 | Midland Bank | 231 | 221 | -2 | SmithKline Beecham | 2,500 | 918 | -5 |
| Anglian Water | 1,500 | 352 | +4 | Eastern Elect. | 1,100 | 225½ | -½ | Midlands Elect. | 1,700 | 209 | | [illegible] | 141 | 4138 | -28 |
| Argos | 431 | 288 | | East Midland Elect. | 405 | 230 | -5 | NFC | 388 | 240 | +3 | [illegible] | 221 | 289 | -6 |
| Argyll Group | 3,500 | 305 | -1 | Enterprise Oil | 202 | 449 | +2 | NatWest Bank | 3,700 | 280 | | Southern Elect. | 229 | 282 | -5 |
| Arjo Wiggins | 314 | 264 | -1 | Eurotunnel Units | 75 | 463 | -6 | National Power | 2,700 | 224 | +6 | South Wales Elect. | 235 | 317 | -2 |
| Ass. Brit. Foods | 36 | 437 | -3 | FKI | 5,600 | 88 | +2 | Next | 6,000 | 70 | +½ | South West Water | 600 | [illegible] | +6 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| BP | 9,600 | 289 | -1 | IMI | 478 | 282 | -1 | Rolls Royce | 3,700 | 144 | | United Biscuits | 614 | 408 | |
| British Steel | 6,600 | 117½ | +½ | ICI | 1,300 | 1259 | -8 | Rothmans | 774 | 1086 | | Utd. Newspapers | 93 | 587 | +2 |
| British Telecom | 4,500 | [illegible] | -2 | Inchcape | 486 | 423 | +3 | Ryl Bk Scotland | 659 | 166 | -2 | Vodafone | 2,100 | 347 | -1 |
| Br. Telecom New | 9,000 | 117 | -2 | Kingfisher | 385 | 522 | -3 | Royal Insurance | 3,100 | 255 | +6 | Warburg (SG) | 105 | [illegible] | +2 |
| Bunzl | 27 | 85 | | Ladbroke | 734 | 214 | -2 | Saatchi | 7,400 | 14 | | Wellcome | 384 | 1122 | +16 |
| Burmah Castrol | 312 | 620 | +3 | Land Securities | 327 | 474 | -5 | Sainsbury | 2,500 | 374 | +5 | Welsh Water | 352 | 385 | |
| Burton | 3,500 | 38½ | +1½ | Laporte | 113 | 676 | -4 | Scottish & New. | 538 | 426 | -3 | Wessex Water | 220 | 394 | -1 |
| Cable & Wire. | 1,100 | 580 | +4 | Legal & General | 1,400 | 383 | | Scot. Hydro-Elect. | 2,900 | 104½ | +1½ | Whitbread 'A' | 709 | 457 | -5½ |
| Cadbury Schweppes | 778 | 447 | +1 | Lloyds Abbey | 1,500 | 386 | | Scottish Power | 3,900 | 103 | +1 | Williams Hldgs | 3,600 | 309 | -3 |
| Calor Group | 130 | [illegible] | -2 | Lloyds Bank | 672 | [illegible] | | Sears | 4,700 | 98½ | -1½ | Willis Corroon | 123 | 253 | -4 |
| Carlton Comms. | 7,900 | 546 | -23 | LASMO | 1,400 | [illegible] | +1 | Sedgwick | 595 | 214 | -12 | Wimpey | 601 | 114½ | -2½ |
| Coats Viyella | 339 | 177 | -1 | London Elect. | 505 | 231 | +2½ | Seeboard | 170 | 283 | -6 | Yorkshire Elect. | 308 | 318 | -1 |
| Comm. Union | 1,500 | 457 | -8 | Lonrho | 15,000 | 115½ | -8 | Severn Trent Water | 1,100 | 306 | +6 | Yorkshire Water | 870 | 362 | +2 |

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system on Tuesday until 4.30pm. Trades of one million or more are rounded down.

### EQUITY FUTURES AND OPTIONS TRADING

DEALERS OF stock index futures reported a dull session yesterday, with no follow-through on the strong buying which occurred in the last few minutes of Monday's trading.

A strong opening had been expected for the March contract following Monday's late squeeze and the firm overnight performance on Wall Street. However, there was little in the way of buying interest and sellers sent March drifting lower. The poor Wall Street opening sent the contract to 2,562, the low of the day, although a recovery was seen late in the session as Walls Street bounced.

March closed at 2,578, down 16 from Tuesday and around 16 above its estimated fair value premium of 16. Turnover was only 5,176 contracts.

The traded options market also experienced a dull session with turnover reaching only 22,820, down from Monday's 28,734. The FT-SE 100 option traded 4,018. Dealers expected a higher total ahead of its January expiry this week.

Tesco was the busiest stock option following a late spate of trading. It traded 3,221 lots, with James Capel reported to have carried out a majority of the day's business. This was followed by British Steel with a total of 1,676. Fisons was also busy, trading 1,493 lots.

## LONDON SHARE SERVICE

### BRITISH FUNDS

| Notes | Price £ | + or - | 1991/92 high | 1991/92 low | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### BRITISH FUNDS - Cont.

| Notes | Price £ | + or - | 1991/92 high | 1991/92 low | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### BRITISH FUNDS - Cont.

| Notes | Price £ | + or - | 1991/92 High | 1991/92 low | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### OTHER FIXED INTEREST

| Notes | Price £ | + or - | 1991/92 High | 1991/92 Low | Yield Int. | Yield Red. |
|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

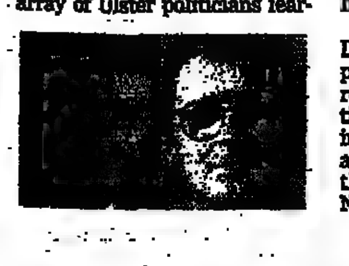
## APPOINTMENTS

### Electric atmosphere in Northern Ireland

While Northern Ireland's electricity privatisation programme remains mired in political difficulties – with the possibility, into the bargain, of a reversal of the entire endeavour in the event of a Labour victory in the UK election – some of the key players are taking up their positions for the forthcoming fray.

Northern Ireland Electricity, which is set to become a public limited company at the end of March, with possible flotation towards the end of the year, lost its Yorkshire-born chief executive Tony Hadfield who was lured to Newcastle last October as the new managing director of Northern Electric. NIE has now found a replacement in 41-year-old Ulsterman Patrick Haren (below left), who has been in Dublin in recent years as new business investment director of the Electricity Supply Board in the Republic.

As NIE battles its way between the competition-minded department of economic development and an array of Ulster politicians fearful of job losses and fighting to defend the "public sector ethic", it is far from clear quite what sort of organisation Haren will head from March 31.



Meanwhile, economist Geoffrey Horton (below right) is to become director general of the province's electricity regulator which is designed to come into being on April 1.

Stephen Littlechild, director-general of Offer, the electricity regulator in England and Wales, had declined the northern Ireland post saying his workload was too heavy.

The Northern Irish Offer will be a separate entity, but with close links enabling it to tap into the experience of the longer established regulator. Horton himself will be based in Birmingham, spending perhaps two days a week in the province.

Horton, who is 40, has also been working part-time as a consultant to the National Economic Research Associates although he will give this up when he takes on Northern Ireland.

He previously worked at the Department of Energy and played a significant part in the re-organisation and privatisation of the electricity industry in England and Wales, as well as being involved in setting up the regulatory regime for Northern Ireland.

■ Gail Gunderson, formerly director, finance and administration for VAUXHALL MOTORS Ltd, is appointed executive director, finance at Adam Opel in Russelsheim; his place is taken by Henry Klages, formerly director of finance for General Motors Europe, in Zurich.

■ Nicholas Dupenois, company secretary and legal counsel, and Dai Williams, director of human resources, are appointed to the board of EATON Ltd.

■ David Ling is appointed finance director of DENSITRON International.

■ John McKenzie is promoted to sales and operations director of ELLIS & EVERARD.

■ Jack Dunn is appointed chief executive of BARBOUR INDEX and James Jordan company secretary. The company has been reorganised into four divisions and three mds have been appointed: Roger Bibby, Christopher Leonard-Morgan and Lorne Duncan.

■ Alan Howard is promoted to md of KORES NORDIC (GB).

■ David Bradford is appointed a director of S DANIELS.

■ Geoff Kneen, research director, and Mike Clydesdale, operations director, are appointed to the board of SCHERING AGROCHEMICALS.

■ Philippe Payen is appointed chairman of PHOTO-ME International, following the death in December of Terence Chute.

### Clydesdale hierarchy

Douglas Corner becomes the second most important executive of CLYDESDALE BANK, the Glasgow-based subsidiary of National Australia Bank, under a restructuring designed to improve performance and profitability.

Corner, 47, becomes general manager of the newly constituted banking division; Jack Queen, 48, is to be general manager of a strengthened financial services division; David Deeble, 52, becomes general manager of the new support division; and Jim McNeillage, 51, becomes general manager of the new finance division which includes the bank's treasury operations.

Corner, who is promoted from running one of the three retail banking divisions, becomes responsible for the majority of the bank's employees and for its principal interface with customers.

He and Queen are the internal candidates for the post of chief executive which will become vacant when Richard Cole-Hamilton, 57, retires by the end of the year. Headhunters are also looking at outside candidates; a decision will be made within two months.

Meanwhile, Allan Diplock has resigned from the board and Max Bray has been appointed in his place.

# LONDON SHARE SERVICE

## AMERICANS

| | Notes | Price £ | + or - | 1991/92 high | 1991/92 low | Mkt Cap£m | Yld Gr's |
|---|---|---|---|---|---|---|---|
| Abbott Labs | | 34xd | [illegible] | 36 1/8 | 20 7/8 | 14,459 | 1.7 |
| ♥Allegheny & W | | 297p | +17 | 385p | 218p | 154.2 | 5.7 |
| Amdahl | | 948pxd | +8 | 1018p | 667p | 1,058 | 0.6 |
| Amer Cyanamid | | 34 1/4 | — | 42 1/4 | 25 3/8 | 3,194 | 2.5 |
| Amer Express | | 12 1/2xd | -1/8 | 17 7/8 | 9 [illegible] | 5,880 | 4.5 |
| Amer T & T | | 21 [illegible]xd | [illegible] | 24 1/2 | 15 1/4 | 27,517 | 3.5 |
| Ameritech | | 34 7/8 | [illegible] | 38 [illegible] | 32 1/2 | 16,289 | 5.5 |
| BankAmerica | | 22xd | [illegible] | 28 [illegible] | 12 [illegible] | 4,789 | 3.1 |
| Bankers NY | | 38xd | [illegible] | 38 [illegible] | 20 [illegible] | 2,958 | 7.6 |
| Bell Atlantic | | 25 3/8xd | [illegible] | 30 1/2 | 24 1/4 | 9,979 | 5.8 |
| BellSouth | | 27 1/2 | -1/2 | 31 1/4 | 25 | 13,339 | 5.6 |
| ♥Bethlehem Steel | | 8 7/8xd | -1/4 | 11 1/4 | 8 [illegible] | 678.5 | 2.5 |
| Bowater | | 1291p | +11 | 1838p | 1042p | 463.7 | 5.2 |
| CPC | | 46 7/8xd | [illegible] | 64 [illegible] | 37 [illegible] | 3,543 | 2.8 |
| California Engy | | 749p | -10 | 938p | 420p | 198.4 | — |
| Campbell Soup | h | 22 [illegible] | [illegible] | 25 | 14 1/4 | 5,680 | 1.8 |
| Chase Manhattan | | 11 [illegible]xd | — | 12 3/4 | 5 [illegible] | 1,623 | 5.7 |
| Chrysler | | 8 [illegible]xd | [illegible] | 9 [illegible] | 5 [illegible] | 2,419 | 4.0 |
| Citicorp | | 8 [illegible]xd | [illegible] | 10 [illegible] | 4 [illegible] | 2,982 | — |
| Colgate-Palm | | 26 [illegible]xd | +1 1/2 | 27 5/8 | 21 [illegible] | 3,999 | 2.2 |
| Cont'l Bank | | 732p | -9 | 920p | 438p | 739.7 | 6.2 |
| Dana | | 18xd | +1/4 | 21 5/8 | 13 [illegible] | 789.9 | 5.0 |
| Data General | | 621p | -50 | 1262p | 203p | 171.4 | — |
| Dial | | 27xd | [illegible] | 27 7/8 | 12 7/8 | 1,872 | 2.9 |
| Dun & Brad | | 30 3/4 | +1/4 | 31 5/8 | 20 3/4 | 6,487 | 4.8 |
| Eaton | | 37 1/2 | -1/4 | 40 | 24 1/4 | 1,276 | 3.3 |
| Echlin | | 8 1/4xd | -1/4 | 8 [illegible] | 5 1/2 | 487.7 | 4.7 |
| FPL | | 18 1/8xd | -1 1/4 | 20 [illegible] | 14 [illegible] | 3,072 | 7.5 |
| Fluor | | 25 1/4xd | [illegible] | 30 [illegible] | 17 [illegible] | 2,083 | 0.9 |
| Ford Motor | | 18 1/4xd | [illegible] | 23 1/4 | 13 | 8,539 | 3.1 |
| Gen Elect | | 43 [illegible]xd | [illegible] | 46 [illegible] | 20 [illegible] | 37,542 | 2.7 |
| ♥General Host | | 456p | -13 | 565p | 270p | — | 4.1 |
| Gillette | | 27 1/4xd | -1 1/4 | 45 1/4 | 20 3/4 | 5,958 | 1.3 |
| Hasbro | | 21 7/8 | [illegible] | 24 | 7 [illegible] | 1,234 | 0.8 |
| Honeywell | | 39 1/4xd | -3/4 | 40 1/2 | 21 1/4 | 2,737 | 2.4 |
| [illegible] | | 24 | [illegible] | 24 1/2 | 17 7/8 | 3,093 | 6.9 |
| IBM | | 51 1/4xd | [illegible] | 72 [illegible] | 46 | 29,609 | 5.3 |
| Ingersoll-Rand | | 32 5/8xd | [illegible] | 33 [illegible] | 18 [illegible] | 1,578 | 2.3 |
| Lockheed | | 23 1/8xd | -1/4 | 28 1/8 | 16 3/4 | 1,464 | 4.9 |
| Lowe's | | 2181p | +13 | 2389p | 1245p | 784.1 | 1.4 |
| Merrill Lynch | | 32 7/8xd | -1 1/4 | 38 [illegible] | 10 [illegible] | 3,374 | 1.7 |
| Morgan (JP) | | 34 1/4xd | [illegible] | 36 1/4 | 21 [illegible] | 6,563 | 3.5 |
| Morris (Philip) | | 42 3/8xd | -1/2 | 44 5/8 | 25 [illegible] | 39,221 | 2.8 |
| NYNEX | | 43 1/4 | +1/4 | 46 1/4 | 39 | 8,747 | 8.0 |
| ♥Pac Agric | | 28 1/2p | — | 88p | 15p | — | — |
| Pall | | 17 | -1/4 | 17 [illegible] | 10 [illegible] | 1,451 | 1.2 |
| Pennzoil | | 29 [illegible]xd | [illegible] | 48 1/2 | 28 [illegible] | 1,195 | 5.7 |
| Quaker Oats | | 37 3/4 | [illegible] | 40 [illegible] | 24 7/8 | 2,858 | 2.6 |

## CANADIANS

## BANKS

## BREWERS & DISTILLERS

## BUILDING MATERIALS

## BUILDING MATERIALS - Cont.

## BUSINESS SERVICES

## CHEMICALS

## CONGLOMERATES

## CONTRACTING & CONSTRUCTION

## CONTRACTING & CONSTRUCTION - Cont.

## ELECTRICALS

## ELECTRICITY

## ELECTRONICS

## ENGINEERING AEROSPACE

## ENGINEERING GENERAL

## ENGINEERING - GENERAL - Cont.

## FOOD MANUFACTURING

## FOOD RETAILING

## HEALTH & HOUSEHOLD

## HEALTH & HOUSEHOLD - Cont.

## HOTELS & LEISURE

## INSURANCE BROKERS

## INSURANCE COMPOSITE

## INSURANCE LIFE

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS - Cont.

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# LONDON SHARE SERVICE

## INVESTMENT TRUSTS - Cont.

| | Notes | Price | + or - | 1991/92 high | low | Yld Gr's | NAV | Dis or Pm(-) |
|---|---|---|---|---|---|---|---|---|
| [illegible] National Inc. | | 100 | — | 115 | 97 | 11.6 | — | — |
| [illegible] Cap. | | 38 | — | 66 | 31 | — | 28.3 | -34.4 |
| Stepped Pf. | † | 131¾ | +1 | 131¾ | 113 | 5.3 | — | — |
| Zero Div Pf. | | 170¾ | +1 | 170¾ | 141 | — | — | — |
| Warrants | | 8½ | — | 19 | 8 | — | — | — |
| [illegible] | | 53 | — | 53 | 46¼ | 3.1 | 53.6 | 1.1 |
| [illegible] | | 1200 | -5 | 1235 | 882 | 3.8 | 1357.0 | 11.2 |
| Second Market | | 224 | — | 238 | 189 | 8.6 | 254.2 | 11.9 |
| [illegible] | † | 70 | -½ | 70 | 57½ | 5.9 | 72.3 | 3.9 |
| Select Assets | | 100 | — | 102 | 71 | 1.2 | 133.7 | 25.1 |

## MISCELLANEOUS - Cont.

| | Notes | Price | + or - | 1991/92 high | low | Mkt Cap£m | Yld Gr's |
|---|---|---|---|---|---|---|---|
| Amberley | | 31 | — | 49 | 20 | 1.88 | 6.5 |
| Appld H'graph | | 126 | -5 | 167½ | 50 | 24.7 | — |
| Aspen Comms | | 167 | — | 177 | 85 | 21.8 | 6.5 |
| Ass Brit Cnslts | † | 76 | — | 117 | 75 | 7.85 | 11.7 |
| Astra | | 3¼ | — | 10½ | 3 | 2.84 | — |
| Attwoods | | 142 | -3 | 247 | 95 | 282.4 | 4.7 |
| BAT Inds | † | 658 | +2 | 772 | 559 | 9,697 | 6.4 |
| 12¼ pc Ln '03/08 | | £118⅝ | +⅛ | £118½ | £100⅞ | 538.6 | 11.1 |
| BLP | | 48 | — | 116 | 28 | 28.8 | 3.5 |
| Banks (SC) | † | 162 | — | 167 | 130 | 11.4 | 7.1 |
| Black Arrow | | 33 | — | 41 | 23 | 8.16 | 8.5 |
| Black (P) | | 128 | — | 148 | 108 | 88.8 | 3.0 |
| Calderburn | † | 139 | -1 | 168 | 98 | 38.5 | 7.4 |
| Cornwell P'ker A | | 177 | — | 193 | 117 | 70.4 | 4.1 |
| Cosalt | | 147 | — | 168 | 116 | 16.9 | 9.8 |
| For Crown de Geot see Glenchewton | | | | | | | |

## MINES - Cont.

| | Notes | Price | + or - | 1991/92 high | low | Mkt Cap£m | Yld Gr's |
|---|---|---|---|---|---|---|---|
| Northgate Expl C$ | | 30½ | -½ | 60 | 30 | 4.96 | — |
| North West Expl A$ | | 8 | — | 16 | 5 | 2.62 | — |
| Plateau | | 12 | — | 44 | 11 | 2.34 | — |
| RTZ | | [illegible] | +1 | [illegible] | 404 | [illegible] | 4.9 |
| Vizcaya | | 2½ | — | 10 | 2 | 1.34 | — |
| Young Grp | | [illegible] | — | 130 | 108 | 10.2 | 8.4 |

## MEDIA

## MERCHANT BANKS

## METALS & METAL FORMING

## MISCELLANEOUS

## MOTORS

## OIL & GAS

## OIL & GAS - Cont.

## OTHER FINANCIAL

## OTHER INDUSTRIAL MATERIALS

## PACKAGING, PAPER & PRINTING

## PACKAGING, PAPER & PRINTING - Cont.

## PROPERTY

## STORES

## STORES - Cont.

## TELEPHONE NETWORKS

## TEXTILES

## TRANSPORT

## WATER

## SOUTH AFRICANS

## PLANTATIONS

## MINES

## GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Minimum tender price.
F Yield based on prospectus or other official estimates for 1990-91.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xl ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

# FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

## AUTHORISED UNIT TRUSTS

## Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

**INITIAL CHARGE:** Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

**OFFER PRICE:** Also called issue price. The price at which units are bought by investors.

**BID PRICE:** Also called redemption price. The price at which units are sold back by investors.

**CANCELLATION PRICE:** The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

**TIME:** The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

**HISTORIC PRICING:** The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

**FORWARD PRICING:** The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

**SCHEME PARTICULARS AND REPORTS:** The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 - 379 - 0444.

# FT MANAGED FUNDS SERVICE

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### Funds in Court*

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Capital Jan 16 | 495.45 | 499.11 | ---- | 2.83 |
| Gross Jan 16 | 170.31 | 171.68 | ---- | 11.36 |
| High Yield Jan 16 | 280.23 | 282.47 | ---- | 7.79 |

* Restricted to monies under Court control

### Henderson Unit Trust Management Ltd

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Pensions Mngd | 52.95 | 54.05 | +0.01 | 3.88 |

### INVESCO MIM Management Ltd

Exempt Funds

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Intl Mngd P'Folio | 1173.0 | 1266.0 | ---- | - |
| Mngd Pens (Acc) | 66.7 | 71.1 | ---- | - |

### Lazard Brothers & Co. Ltd

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Property Sept 5 | £2440.0 | 2600.0 | ---- | 7.00 |
| Inc Gth Prp Jul 31 | £1375.0 | 1460.0 | ---- | 8.90 |

### Lazard Investors Ltd ‡‡

Exempt Funds

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Small Co's Jan 29 | £3873.9 | 4066.1 | +47.90 | 3.02 |
| European Jan 29 | £573.5 | 579.7 | +3.90 | 1.51 |
| American Jan 29 | £362.4 | 365.8 | +1.70 | 2.22 |
| Japan Jan 29 | £499.9 | 465.3 | -10.40 | 1.40 |
| Pacific Jan 29 | £140.0 | 143.8 | -0.20 | 1.93 |
| W Midlands Sep 30 | £136.50 | 152.30 | --- | 2.48 |

### Local Authorities Mutual Invest. Tst.*

2 Fore Street, London EC2Y 5AQ 071-588 1815

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Property Dec 31 | 196.75 | 200.75 | ... | 7.88 |
| Equity Dec 31 | 845.45 | 857.30 | ... | 3.99 |

* Available only to Local Authorities

### M & G Securities Ltd

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Charibond Jan 28 | | 105.67 | +0.2 | 10.21 |
| (Accum Units) | | 629.61 | +1.1 | 10.21 |
| NAACIF Jan 28 | | 41.01 | -0.1 | 9.57 |

### Morgan Grenfell Investment Funds Ltd

Exempt Funds

### Sovereign Unit Tst Mngrs Ltd (1000)F

12 Christchurch Rd, Bournemouth 0202 298422

### Standard Chartered Equitor (1200)F

### Standard Life Tst Mgmt Ltd (0629)H

3 George St, Edinburgh EH2 2XZ 0800 393777

### Stewart Ivory Unit Tst Mgrs Ltd (1200)H

45 Charlotte Sq, Edinburgh 031-226 3271

### Allied Dunbar Assurance Plc

Allied Dunbar Ctr, Swindon SN1 1EL

Life Funds

# INSURANCES

# OTHER UK UNIT TRUSTS

Continued on next page

# FT MANAGED FUNDS SERVICE

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| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **N & P Life Assurance Ltd** | | | | |
| 6-7 Bedford Row London WC1R 4UJ 071-430 2348 | | | | |
| Life Managed Fd | 110 1 | 115.9 | | |
| Pension Managed Fd | 108 6 | 114 3 | | |
| Life Deposit Fd | 112 2 | 118.1 | | |
| Pension Deposit Fd | 119 6 | 125 9 | | |

For National Fin see Target Life

**National Mutual Life**
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

[illegible]

**National Provident Institution**

[illegible]

**Norwich Union Asset Management Ltd**

[illegible]

**Norwich Union Life Insurance Soc.**

[illegible]

**Norwich Union Pensions Management Ltd**

[illegible]

**Pearl Assurance (Unit Funds) Ltd**

[illegible]

**Pegasus Assurance Ltd**

[illegible]

**Premium Life Assurance Co Ltd**

[illegible]

**Professional Life Assurance Co Ltd**

[illegible]

**Prolific Life & Pensions Ltd**

[illegible]

**Property Life Assurance Ltd**

[illegible]

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Providence Capital Life Assc. Co Ltd** | | | | |
| 2 Bartley Way, Hook, Hants RG27 9XA 0256 768888 | | | | |
| UK Equity Acc. | 217 1 | 229 1 | -1.1 | |
| UK Fixed Int. Acc | 196.7 | 207.5 | | |
| Intl Equities Acc. | 176.6 | 186.3 | -0.3 | |
| UK Managed Acc | 172.0 | 181.4 | -0.6 | |
| Property Acc. | 225.6 | 238.0 | | |
| Money Acc. | 135.3 | 142.8 | | |
| Special Market Acc. | 150.8 | 159.1 | -0.7 | |
| Japan Equity Acc. | 92.1 | 97.2 | -0.7 | |
| North American Acc. | 110.2 | 116.3 | -1.2 | |
| Pacific Acc. | 93.4 | 98.6 | -0.7 | |

[illegible]

**Provident Life Assoc Ltd**

[illegible]

**Provident Mutual Life Assc. Assn.**

[illegible]

**Prudential Assurance Co**

[illegible]

**Prudential Corporate Pension Funds**

[illegible]

**Prudential Individual Life Funds**

[illegible]

**Prudential Individual Pension Funds**

[illegible]

**Reliance Mutual**

[illegible]

**J Rothschild Assurance PLC**

[illegible]

**Royal Heritage Life Assurance Ltd**

[illegible]

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Royal Heritage Life Assurance Ltd – Contd.** | | | | |
| Baring Funds | | | | |
| Australia | 68 8 | 72.5 | -1.8 | |
| Eastern | 239 9 | 252.6 | -2.6 | |
| European Sintis Cos | 143.3 | 150.9 | | |
| Japan Sunrise | 107 0 | 112.7 | -0.9 | |
| Managed | 151 7 | 159 7 | -1.4 | |
| Gartmore Funds | | | | |
| American | 172 8 | 181 9 | -1.8 | |
| British | 225.7 | 237.1 | -1.3 | |
| European | 178 3 | 187 7 | -0.2 | |
| Frontier Markets | 121.5 | 127.9 | -0.7 | |

[illegible]

**Royal Insurance Life Ltd**

[illegible]

**Royal Life Assurance**

[illegible]

**Save & Prosper Group Ltd**

[illegible]

**Scottish Amicable**

[illegible]

**Scottish Equitable Life Assur. Soc.**

[illegible]

**Scottish Life Investments**

[illegible]

**Scottish Mutual Assurance plc**

[illegible]

**Scottish Provident Institution**

[illegible]

**Scottish Widows' Group**

[illegible]

**Shield Assurance Ltd**

[illegible]

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| **Skandia Life Assurance Co Ltd (z)** | | | | |
| Skandia Hse, Portland Terr, Southampton 0703 334411 | | | | |
| Skandia Price Line 0800 181396 | | | | |
| Skandia Life Managed Funds | | | | |
| Balanced Managed | 281.5 | 296 3 | | |
| Cautious Managed | 111 | 117 5 | -0.1 | |
| Deposit | 235 0 | 247.3 | | |
| Equity | 314 5 | 331.0 | | |
| International | 243 9 | 261 9 | -0.2 | |
| International Bond | 103 8 | 109 2 | -0.5 | |
| Intl Recovery | 188 2 | 198 1 | -0.3 | |

[illegible]

**Standard Life Assurance Company**

[illegible]

**Sun Alliance Group**

[illegible]

**Sun Life Unit Assurance Ltd**

[illegible]

**Swiss Life (UK) PLC**

[illegible]

**Swiss Pioneer Life Plc**

[illegible]

**TSB Life Ltd**

[illegible]

**Target Life Assurance Co Ltd**
The Exchange, 66 High St, Aylesbury, Bucks HP20 1SE

[illegible]

**Teachers' Assurance Company Ltd**

[illegible]

**Templeton Life Assurance Limited**

[illegible]

**Tunbridge Wells Equitable**

[illegible]

**Wesleyan Assurance Society**

[illegible]

**Windsor Life Assur Co Ltd**

[illegible]

## OFFSHORE INSURANCES

**Allianz Intl Assurance (Bermuda) Ltd**

[illegible]

**Albany International Assurance Ltd**

[illegible]

**CMI Insurance Co Ltd**

[illegible]

**Eagle Star Intl Financial Services**

[illegible]

**Equitable Life (International)**

[illegible]

**Equity & Law Intl Life Assce Co Ltd**

[illegible]

**Eurolife Assurance Group**
Eurolife Hse, 16 St John St, EC1M 4AY 071-454 1151

| | Bid Price | Offer Price | + or - | Yield Gross |
|---|---|---|---|---|
| Sterling Eurobond Fd | 192 1 | | | |
| Intl Eurobond Fd | 187 9 | | | |
| Discretionary Fund | 130 0 | | | |

**Finasco International Ltd**
PO Box 193, St Peter Port, Guernsey 0481 713100

[illegible]

**Hamblo Prolific International**

[illegible]

**Hansard International Ltd.**

[illegible]

**Isle of Man Assurance Ltd**

[illegible]

**NEL Britannia International Ltd**

[illegible]

**PanEuroLife societe anonyme**

[illegible]

**Premium Life International Ltd**

[illegible]

**Providence Capital International Ltd**

[illegible]

**Royal Life Intl. Ltd**

[illegible]

**Royal Skandia Life Assurance Ltd (z)**

[illegible]

**Target International Group**

[illegible]

**Woolwich Life Assurance Co Ltd**

[illegible]

**Zurich Life Assurance Co Ltd**

[illegible]

## MANAGEMENT SERVICES

**C F S Financial Mngmt**

[illegible]

**Capital Trust Financial Management**

[illegible]

**Cons de Vere Plc**

[illegible]

**ECU Futures Plc**

[illegible]

**Fairmount Financial Services Ltd**

[illegible]

**Hornbuckle Financial Services(Pty) Ltd**

[illegible]

**IPS Capital Management Plc**

[illegible]

**Independent Financial Group PLC**

[illegible]

**Johnson Fry Asset Managers Plc**

[illegible]

**Knight Williams & Company Ltd**

[illegible]

**Knight Williams & Company Ltd – Contd.**

[illegible]

**Macartney & Dewis Invest Mngt Plc**

[illegible]

**Northern Rock & Partners**

[illegible]

**PSR Fund Management**

[illegible]

**Pendleton Way Financial Services Ltd**

[illegible]

**Rutherford Financial Management Ltd**

[illegible]

**Sharp (Albert E.) & Co.**

[illegible]

**Sitala Fund Management Limited**

[illegible]

**South Yorks Financial Planning**

[illegible]

**Charles Stanley & Co Ltd**

[illegible]

**John Lane & Co.**

[illegible]

**J. D. Ward Financial Services Ltd**

[illegible]

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

**Fidelity Money Funds**

[illegible]

**Newport Investment Management**

[illegible]

**Orion Fund Limited**

[illegible]

### CANADA (SIB RECOGNISED)

**Ivory & Sime Pembroke Inc**

[illegible]

### GUERNSEY (SIB RECOGNISED)

**Adams & Neville Fd Mngt (Guernsey) Ltd**

[illegible]

**Baring Intl Fd Managers (Guernsey) Ltd**

[illegible]

**Equitable International Fund Managers Ltd**

[illegible]

**Guinness Flight Fd Mngrs (Guernsey) Ltd**

[illegible]

**Hambros Fd Mgrs (CI) Ltd**

[illegible]

**Kleinwort Benson Intl Fd Mngrs Ltd**

[illegible]

**Lazard Fund Mngrs (Channel Islands) Ltd**

[illegible]

**Lion World Fixed Interest Fund**

[illegible]

**Lloyds Intl Money Market Fund Ltd**

[illegible]

**N & C Guernsey Ltd**

[illegible]

**Rothschild Asset Management (CI) Ltd**

[illegible]

**Royal Bank of Canada Funds**

[illegible]

**Schroder Investment Mngmt (Guernsey) Ltd**

[illegible]

### GUERNSEY (REGULATED)

**Adams & Neville Fund Mngt (Guernsey) Ltd**

[illegible]

**Arab Bank Fund Managers (Guernsey) Ltd**

[illegible]

**Barclays Global (Guernsey) Ltd**

[illegible]

**Credit Suisse Asset Mngmt (Guernsey) Ltd**

[illegible]

**Fleet-Cohen Fund Mngrs (Guernsey) Ltd**

[illegible]

**John Govett Mngmt International Ltd**

[illegible]

**Kleinwort Benson Intl Fd Mngrs Ltd**

[illegible]

**Merrill Lynch Guernsey**

[illegible]

**Nikko Capital Mngt (Europe) Ltd**

[illegible]

**Saudi International (Guernsey) Ltd**

[illegible]

**Lloyds Trust Trustees Guernsey Ltd**

[illegible]

### IRELAND (SIB RECOGNISED)

**BAH Fund Managers (Ireland) Ltd**

[illegible]

**Hamblo Prolific International Mngmt Ltd**

[illegible]

**Gartmore Fund Managers Ltd**

[illegible]

**Govett (John) International Fund**

[illegible]

### IRELAND (REGULATED)

**Bank of Ireland Unit Managers Ltd**

[illegible]

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## ISLE OF MAN (SIB RECOGNISED)

## ISLE OF MAN (REGULATED)(**)

## GUERNSEY (REGULATED)

## JERSEY (SIB RECOGNISED)

## JERSEY (REGULATED)(**)

## LUXEMBOURG (SIB RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

## SWITZERLAND (SIB RECOGNISED)

## OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

# Dollar weak on economic woes

The dollar continued to trade lower yesterday on the foreign exchange markets as dealers digested the contents of the US budget package and the bleak outlook for the US economy, *writes Simon London.*

Having closed sharply lower in New York following the release of poor consumer confidence indicators on Tuesday, the US currency fell further overnight in the Far East.

By the end of Tokyo trading the US currency stood at DM1.5895, from DM1.5997 in New York, and Y125.17 from Y125.79.

In European trading, the dollar appeared to regain its poise, rising from early lows at DM1.5840 and Y124.75. However, poor economic figures again contributed to a negative tone, preventing any sustained rally.

US gross domestic product rose by just 0.3 per cent in the fourth quarter of last year, from 1.8 per cent in the third quarter, underlining the weakness of the economy.

Details of the US budget package for the next fiscal year underlined that lower interest rates rather than tax cuts or government spending hold the key to recovery. The budget contains reflationary fiscal measures amounting to $20 – $25bn, rather than the $50bn injection which some economists had called for.

The US currency closed in London at DM1.5900, from DM1.5965 on Tuesday; Y125.40 from Y125.60; and $1.8065 against sterling from $1.7955.

Elsewhere, the D-Mark continued to rally against the yen as traders unwound holdings of the Japanese currency built up last week, ahead of the meeting of finance ministers and central bankers from the Group of Seven industrial countries. The G7 meeting was widely expected to declare in favour of a controlled appreciation of the yen, but no concrete exchange rate policy emerged.

The German currency rose to a peak just above Y79, having hovered at around Y77 for most of last week. By the close in London the D-Mark was trading at Y78.95.

In addition to technical strength, the German unit is also attracting buyers on the basis of high interest rate differentials with the US. Money supply figures released on Tuesday and hard-line comments by Bundesbank board member Mr Otmar Issing have dispelled any concerns about an early cut in German interest rates.

Within the European exchange rate mechanism, the Spanish peseta remained the strongest currency and sterling the weakest. However, the peseta did not carry forward its recent appreciation against the D-Mark and traded around the Pta63.00 level for most of the day.

This left sterling's floor, determined by its maximum permitted divergence from the peseta, little changed. The UK currency maintained a bouyant tone, with dealers encouraged by the publication of an opinion poll showing a slender lead for the government. Sterling closed at DM2.8725, from DM2.8675 on Tuesday.

### £ IN NEW YORK

| Jan 29 | Latest | Previous Close |
|---|---|---|
| £ Spot | 1.8060-1.8070 | 1.7915-1.7925 |
| 1 month | 0.93-0.91pm | 0.91-0.90pm |
| 3 months | 2.85-2.82pm | 2.79-2.76pm |
| 12 months | 9.55-9.48pm | 9.27-9.17pm |

Forward premiums and discounts apply to the US dollar

### STERLING INDEX

| | | Jan 29 | Previous |
|---|---|---|---|
| 8.30 | am | 90.8 | 90.7 |
| 9.00 | am | 90.8 | 90.7 |
| 10.00 | am | 90.8 | 90.7 |
| 11.00 | am | 90.8 | 90.7 |
| Noon | | 90.8 | 90.7 |
| 1.00 | pm | 90.9 | 90.7 |
| 2.00 | pm | 90.8 | 90.7 |
| 3.00 | pm | 91.0 | 90.7 |
| 4.00 | pm | 91.0 | 90.8 |

### CURRENCY MOVEMENTS

| Jan 29 | Bank of England Index | Morgan** Guaranty Changes % |
|---|---|---|
| Sterling | 91.0 | -20.8 |
| U.S. Dollar | 62.4 | -16.2 |
| Canadian Dollar | 101.3 | -0.6 |
| Austrian Schilling | 110.2 | +12.2 |
| Belgian Franc | 111.8 | -1.7 |
| Danish Krone | 109.2 | +3.4 |
| D-Mark | 119.0 | +25.3 |
| Swiss Franc | 108.4 | +16.9 |
| Dutch Guilder | 114.8 | +16.5 |
| French Franc | 103.4 | -12.7 |
| Lira | 99.0 | -19.5 |
| Yen | 144.3 | +80.2 |

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Jan.28

### CURRENCY RATES

| Jan 29 | Bank & rate % | Special * Drawing Rights | European † Currency Unit |
|---|---|---|---|
| Sterling | - | 0.783250 | 0.712438 |
| U.S. Dollar | 3.50 | 1.39694 | 1.28609 |
| Canadian $ | 7.33 | 1.64029 | 1.51103 |
| Austrian Sch | 7.50 | 15.8343 | 14.3649 |
| Belgian Franc | 8.50 | 46.3561 | 42.0582 |
| Danish Krone | 9.50 | 8.73459 | 7.91783 |
| D-Mark | 8.00 | 2.24995 | 2.04167 |
| Dutch Guilder | 8.50 | 2.52874 | 2.29941 |
| French Franc | 10¼ | 7.65733 | 6.95969 |
| Italian Lira | 12 | 1689.21 | 1536.67 |
| Japanese Yen | 4.50 | 175.176 | 161.019 |
| Norway Krone | 8 | 8.82461 | 8.01364 |
| Spanish Peseta | - | 141.429 | 128.760 |
| Swedish Krona | 10.00 | 8.17288 | 7.41808 |
| Swiss Franc | 7.00 | 1.99902 | 1.81846 |
| Greek Drach | 19 | 255.134 | 236.024 |
| Irish Punt | - | N/A | 0.765942 |

& Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Jan.28

### OTHER CURRENCIES

| Jan 29 | £ | $ |
|---|---|---|
| Argentina | 1.7870 - 1.7900 | 0.9900 - 0.9910 |
| Australia | 2.4315 - 2.4335 | 1.3455 - 1.3465 |
| Brazil | 2314.90 - 2316.55 | 1282.50 - 1282.70 |
| Finland | 7.8065 - 7.8290 | 4.3230 - 4.3260 |
| Greece | 328.500 - 333.800 | 182.160 - 185.000 |
| Hong Kong | 14.0110 - 14.0240 | 7.7600 - 7.7620 |
| Iran | 2500.00* | 1420.00* |
| Korea(Sth) | 1358.20 - 1380.10 | 759.10 - 768.10 |
| Kuwait | 0.52540 - 0.52735 | 0.29100 - 0.29200 |
| Luxembourg | 59.00 - 59.10 | 32.65 - 32.75 |
| Malaysia | 4.7835 - 4.7955 | 2.6495 - 2.6515 |
| Mexico | 5451.10 - 5463.15 | 3062.50 - 3063.50 |
| N.Zealand | 3.3495 - 3.3540 | 1.8520 - 1.8545 |
| Saudi Ar | 6.7195 - 6.7985 | 3.7495 - 3.7505 |
| Singapore | 2.9425 - 2.9500 | 1.6310 - 1.6330 |
| S.Af (Cm) | 5.0220 - 5.0540 | 2.7800 - 2.7815 |
| S.Af (Fn) | 5.8060 - 5.9000 | 3.2105 - 3.2625 |
| Taiwan | 44.60 - 44.75 | 24.95 - 25.05 |
| U.A.E. | 6.5795 - 6.6565 | 3.6715 - 3.6735 |

*Floating rate. Iran Official rate:£116.2 $65.8

### EMS EUROPEAN CURRENCY UNIT RATES

| | Ecu Central Rates | Currency Amounts Against Ecu Jan 29 | % Change from Central Rate | % Spread vs Weakest Currency | Divergence Indicator |
|---|---|---|---|---|---|
| Spanish Peseta | 133.631 | 128.760 | -3.65 | 6.10 | 63 |
| Belgian Franc | 42.4032 | 42.0552 | -0.82 | 3.07 | 38 |
| Dutch Guilder | 2.31643 | 2.29941 | -0.73 | 2.99 | 34 |
| D-Mark | 2.05586 | 2.04167 | -0.69 | 2.94 | 41 |
| Irish Punt | 0.767417 | 0.765942 | -0.19 | 2.43 | 7 |
| Italian Lira | 1538.24 | 1536.37 | -0.12 | 2.35 | 4 |
| French Franc | 6.89509 | 6.95969 | 0.94 | 1.28 | -34 |
| Danish Krone | 7.84195 | 7.91783 | 0.97 | 1.25 | -46 |
| Sterling | 0.696904 | 0.712438 | 2.23 | 0.00 | -44 |

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

### POUND SPOT - FORWARD AGAINST THE POUND

| Jan 29 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| US | 1.7920 - 1.8075 | 1.8060 - 1.8070 | 0.92-0.90cpm | 6.04 | 2.83-2.80pm | 6.23 |
| Canada | 2.1050 - 2.1250 | 2.1160 - 2.1170 | 0.63-0.57cpm | 3.40 | 1.27-1.20pm | 2.33 |
| Netherlands | 3.2225 - 3.2400 | 3.2300 - 3.2400 | ¼-⅛cpm | 0.93 | ¾-½pm | 0.85 |
| Belgium | 58.90 - 59.25 | 59.00 - 59.10 | 6-2cpm | 0.81 | 18-13pm | 1.05 |
| Denmark | 11.0925 - 11.1550 | 11.1460 - 11.1560 | ¼-⅛orepm | 0.61 | 1¼-¾pm | 0.47 |
| Ireland | 1.0750 - 1.0785 | 1.0760 - 1.0770 | 0.05cpm-par | 0.28 | 0.12dis-0.03pm | -0.17 |
| Germany | 2.8625 - 2.8750 | 2.8700 - 2.8750 | ⅜-¼pfpm | 1.04 | ⅝-½pm | 0.87 |
| Portugal | 246.00 - 248.10 | 247.10 - 248.10 | 102-131cdis | -5.65 | 231-290dis | -4.21 |
| Spain | 180.40 - 181.10 | 180.50 - 180.60 | 24-35cdis | -1.96 | 89-105dis | -2.15 |
| Italy | 2153.00 - 2163.25 | 2162.25 - 2163.25 | 1-3liredis | -1.11 | 6-8dis | -1.29 |
| Norway | 11.2275 - 11.2825 | 11.2725 - 11.2825 | ¼-⅛orepm | 0.20 | ⅝-⅜pm | 0.11 |
| France | 9.7375 - 9.7925 | 9.7825 - 9.7925 | ⅜-¼cpm | 0.46 | 1-⅝pm | 0.35 |
| Sweden | 10.3925 - 10.4500 | 10.4400 - 10.4500 | 1¼-1¾oredis | -1.72 | 4-4½dis | -1.65 |
| Japan | 225.50 - 227.00 | 226.00 - 227.00 | 1-⅞ypm | 4.97 | 3-2⅞pm | 5.19 |
| Austria | 20.14 - 20.22 | 20.18 - 20.21 | 2½-1groPM | 0.93 | 5¼-2¼pm | 0.84 |
| Switzerland | 2.5500 - 2.5650 | 2.5550 - 2.5650 | ⅝-½cpm | 2.93 | 2-1⅞pm | 2.93 |
| Ecu | 1.4020 - 1.4090 | 1.4065 - 1.4075 | 0.05dis-par | -0.21 | 0.10dis-0.00pm | -0.03 |

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.39-5.34cpm, 12 Month 9.48-9.38pm

### DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

| Jan 29 | Day's spread | Close | One month | % p.a. | Three months | % p.a. |
|---|---|---|---|---|---|---|
| UK† | 1.8020 - 1.8075 | 1.8060 - 1.8070 | 0.92-0.90cpm | 6.04 | 2.83-2.80pm | 6.23 |
| Ireland† | 1.6745 - 1.6815 | 1.6765 - 1.6775 | 0.86-0.81cpm | 5.97 | 2.55-2.45pm | 5.96 |
| Canada | 1.1675 - 1.1765 | 1.1715 - 1.1725 | 0.25-0.28cdis | -2.71 | 0.76-0.80dis | -2.66 |
| Netherlands | 1.7810 - 1.7940 | 1.7895 - 1.7905 | 0.77-0.80cdis | -5.26 | 2.41-2.45dis | -5.43 |
| Belgium | 32.50 - 32.80 | 32.65 - 32.75 | 13.00-15.00cdis | -5.14 | 42.00-45.00dis | -5.32 |
| Denmark | 6.1325 - 6.1775 | 6.1700 - 6.1750 | 2.70-3.00oredis | -5.54 | 8.80-9.40dis | -5.90 |
| Germany | 1.5810 - 1.5935 | 1.5895 - 1.5905 | 0.69-0.71pfdis | -5.25 | 2.16-2.18dis | -5.46 |
| Portugal | 136.45 - 137.85 | 136.45 - 136.55 | 122-132cdis | -11.16 | 360-390dis | -10.99 |
| Spain | 99.55 - 100.55 | 100.05 - 100.15 | 66-69cdis | -8.09 | 210-218dis | -8.55 |
| Italy | 1190.00 - 1197.90 | 1197.00 - 1197.50 | 7.10-7.60liredis | -7.37 | 22.00-23.00dis | -7.52 |
| Norway | 6.2125 - 6.2525 | 6.2400 - 6.2450 | 3.05-3.55oredis | -6.34 | 9.50-10.00dis | -6.25 |
| France | 5.3900 - 5.4325 | 5.4150 - 5.4200 | 2.47-2.52cdis | -5.53 | 7.84-7.94dis | -5.83 |
| Sweden | 5.7475 - 5.7900 | 5.7800 - 5.7850 | 3.70-3.95oredis | -7.94 | 11.50-11.95dis | -8.11 |
| Japan | 124.75 - 125.48 | 125.35 - 125.45 | 0.12-0.13ydis | -1.20 | 0.32-0.34dis | -1.05 |
| Austria | 11.1675 - 11.1900 | 11.1775 - 11.1825 | 4.60-5.00grodis | -5.15 | 14.60-15.80dis | -5.44 |
| Switzerland | 1.4100 - 1.4200 | 1.4170 - 1.4180 | 0.37-0.40cdis | -3.26 | 1.18-1.21dis | -3.37 |
| Ecu | 1.2810 - 1.2890 | 1.2835 - 1.2845 | 0.64-0.62cpm | 5.89 | 1.99-1.93pm | 6.11 |

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

### EURO-CURRENCY INTEREST RATES

| Jan 29 | Short term | 7 Days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Sterling | 10¼ - 10⅛ | 10⅜ - 10⅛ | 10¼ - 10⅛ | 10¼ - 10⅛ | 10¼ - 10⅛ | 10¼ - 10⅛ |
| US Dollar | 4⅛ - 4⅛ | 4⅛ - 4⅛ | 4⅛ - 4⅛ | 4⅛ - 4⅛ | 4⅛ - 4⅛ | 4⅝ - 4⅝ |
| Can. Dollar | 6⅝ - 6⅝ | 6⅝ - 6⅝ | 6⅝ - 6⅝ | 6⅝ - 6⅝ | 7 - 6⅞ | 7⅛ - 6⅞ |
| Dutch Guilder | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ |
| Swiss Franc | 7⅝ - 7⅝ | 7⅝ - 7⅝ | 7⅝ - 7⅝ | 7⅝ - 7⅝ | 7⅝ - 7⅝ | 7⅝ - 7⅝ |
| D-Mark | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ |
| French Franc | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 9⅝ - 9⅝ |
| Italian Lira | 12 - 10 | 12½ - 12 | 12⅛ - 11⅞ | 11⅞ - 11⅞ | 11⅞ - 11½ | 11⅞ - 11⅜ |
| Belgian Franc | 9½ - 9⅜ | 9½ - 9⅜ | 9⅝ - 9⅜ | 9⅝ - 9⅜ | 9⅝ - 9⅜ | 9⅝ - 9⅜ |
| Yen | 5⅝ - 5⅜ | 5⅝ - 5⅜ | 5⅝ - 5⅜ | 5⅜ - 5⅜ | 4⅞ - 4⅞ | 4⅞ - 4⅞ |
| Danish Krone | 9⅝ - 9⅝ | 9⅝ - 9⅝ | 10 - 9⅝ | 10⅛ - 9⅞ | 9⅞ - 9⅞ | 9⅞ - 9⅞ |
| Asian $Sing | 3 - 2⅞ | 2⅞ - 2⅞ | 2⅞ - 2⅞ | 2⅞ - 2⅞ | 3⅛ - 2⅞ | 3⅛ - 3⅛ |

Long term Eurodollars: two years 5½-5⅜ per cent; three years 6⅛-6 per cent; four years 6⅝-6½ per cent; five years 7-6⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

### EXCHANGE CROSS RATES

| Jan.29 | £ | $ | DM | Yen | F Fr. | S Fr. | N Fl. | Lira | C$ | B Fr. | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|
| £ | 1 | 1.806 | 2.872 | 226.5 | 9.787 | 2.560 | 3.235 | 2163 | 2.116 | 59.05 | 1.407 |
| $ | 0.554 | 1 | 1.590 | 125.4 | 5.419 | 1.417 | 1.791 | 1198 | 1.172 | 32.70 | 0.779 |
| DM | 0.348 | 0.629 | 1 | 78.86 | 3.408 | 0.891 | 1.126 | 753.1 | 0.737 | 20.56 | 0.490 |
| YEN | 4.415 | 7.974 | 12.68 | 1000. | 43.21 | 11.30 | 14.28 | 9550 | 9.342 | 260.7 | 6.212 |
| F Fr. | 1.022 | 1.845 | 2.935 | 231.4 | 10. | 2.616 | 3.305 | 2210 | 2.162 | 60.34 | 1.438 |
| S Fr. | 0.391 | 0.705 | 1.122 | 88.46 | 3.823 | 1 | 1.264 | 844.9 | 0.827 | 23.07 | 0.550 |
| N Fl. | 0.309 | 0.558 | 0.888 | 70.02 | 3.025 | 0.791 | 1 | 668.6 | 0.654 | 18.25 | 0.435 |
| Lira | 0.462 | 0.835 | 1.328 | 104.7 | 4.525 | 1.184 | 1.496 | 1000. | 0.978 | 27.30 | 0.650 |
| C $ | 0.473 | 0.853 | 1.357 | 107.0 | 4.625 | 1.210 | 1.529 | 1022 | 1 | 27.91 | 0.665 |
| B Fr. | 1.693 | 3.058 | 4.864 | 383.6 | 16.57 | 4.335 | 5.478 | 3663 | 3.583 | 100. | 2.383 |
| Ecu | 0.711 | 1.284 | 2.041 | 161.0 | 6.956 | 1.819 | 2.299 | 1537 | 1.504 | 41.97 | 1 |

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

## FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100% [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100% [illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100% [illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100% [illegible]

LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS [illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100% [illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT * £50,000 32nds of 100% [illegible]

US TREASURY BONDS 8% * $100,000 32nds of 100% [illegible]

6% NOTIONAL GERMAN GOVT. BOND * DM250,000 100ths of 100%

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Mar | 88.37 | 88.56 | 88.32 | 88.39 |
| Jun | 88.83 | 89.00 | 88.79 | 88.83 |

Estimated volume 58477 (70125)
Previous day's open int. 121542 (121210)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Mar | 103.37 | 103.39 | 103.30 | |
| Jun | 103.23 | | | |

Estimated volume 485 (369)
Traded exclusively on APT

9% NOTIONAL ECU BOND ECU 200,000 100ths of 100%

| | Close | High | Low | Prev |
|---|---|---|---|---|
| Mar | 103.23 | 103.43 | 103.20 | 103.33 |

Estimated volume 130 (234)
Previous day's open int. 297 (265)

12% NOTIONAL ITALIAN GOVT. BOND (BTP) * LIRA 200m 100ths of 100%

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 98.72 | 98.88 | 98.63 | 98.74 |
| Jun | 98.81 | 98.85 | 98.78 | 98.78 |

Estimated volume 5328 (10589)
Previous day's open int. 21965 (21626)

THREE MONTH STERLING * £500,000 points of 100%

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 89.80 | 89.84 | 89.76 | 89.83 |
| Jun | 90.12 | 90.13 | 90.08 | 90.14 |
| Sep | 90.43 | 90.44 | 90.39 | 90.44 |
| Dec | 90.56 | 90.57 | 90.54 | 90.57 |
| Mar | 90.68 | 90.68 | 90.64 | 90.68 |
| Jun | 90.70 | 90.70 | 90.64 | 90.69 |

Est. Vol. (inc. figs. not shown) 47268 (48407)
Previous day's open int. 199379 (194169)

THREE MONTH EURODOLLAR * $1m points of 100%

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 95.89 | 95.91 | 95.87 | 95.82 |
| Jun | 95.72 | 95.73 | 95.67 | 95.62 |
| Sep | 95.39 | 95.38 | 95.36 | 95.25 |
| Dec | 94.74 | 94.74 | 94.71 | 94.57 |

Est. Vol. (inc. figs. not shown) 4234 (2686)
Previous day's open int. 39248 (38517)

THREE MONTH EUROMARK * DM 1m points of 100%

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 90.61 | 90.63 | 90.57 | 90.62 |
| Jun | 91.07 | 91.14 | 91.03 | 91.11 |
| Sep | 91.48 | 91.58 | 91.45 | 91.54 |
| Dec | 91.79 | 91.80 | 91.76 | 91.82 |
| Mar | 92.14 | 92.19 | 92.11 | 92.17 |
| Jun | 92.29 | 92.32 | 92.28 | 92.33 |

Estimated volume 28482 (40634)
Previous day's open int. 224984 (219129)

THREE MONTH ECU ECU 1m points of 100%

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 89.83 | 89.93 | 89.79 | 89.92 |
| Jun | 90.40 | 90.52 | 90.40 | 90.50 |
| Sep | 90.91 | 91.01 | 90.88 | 91.01 |
| Dec | 91.25 | 91.25 | 91.25 | 91.29 |

Estimated volume 1032 (1002)
Previous day's open int. 7729 (7699)

THREE MONTH EURO SWISS FRANC SFR 1m points of 100%

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 92.47 | 92.57 | 92.44 | 92.57 |
| Jun | 92.74 | 92.85 | 92.73 | 92.84 |
| Sep | 93.04 | 93.11 | 93.03 | 93.14 |
| Dec | 93.21 | 93.28 | 93.25 | 93.30 |

Estimated volume 6444 (2044)
Previous day's open int. 29269 (29737)

FT-SE 100 INDEX * £25 per full index point

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 2578.0 | 2585.0 | 2562.0 | 2594.0 |
| Jun | 2612.5 | | | 2628.5 |
| Sep | | | | |

Estimated volume 6400 (7665)
Previous day's open int. 36011 (36185)

FT-SE EUROTRACK 100 INDEX DM50 per full index point

| | Close | High | Low | Prev. |
|---|---|---|---|---|
| Mar | 1160.0 | | | 1160.0 |
| Jun | | | | |

Estimated volume 0 (0)
Previous day's open int. 137 (137)

* Contracts traded on APT. Closing prices shown

### POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

| Spot | 1-mth. | 3-mth. | 6-mth. | 12-mth. |
|---|---|---|---|---|
| 1.8065 | 1.7974 | 1.7784 | 1.7536 | 1.7118 |

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100% [illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100 [illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM [illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100% [illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100% [illegible]

BRITISH POUND (IMM) $ per £ [illegible]

STANDARD & POORS 500 INDEX $500 times index [illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr [illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1) [illegible]

PARIS

7 to 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES [illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate) [illegible]

CAC-40 FUTURES (MATIF) Stock index [illegible]

ECU BOND (MATIF) [illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF)

| Strike | Calls March | Calls June | Calls September | Puts March | Puts June | Puts September |
|---|---|---|---|---|---|---|
| 106 | 3.78 | - | - | 0.02 | - | - |
| 107 | - | - | - | 0.07 | 0.22 | 0.48 |
| 108 | 1.01 | - | - | 0.32 | 0.40 | - |
| 109 | 0.40 | 1.69 | 2.05 | 0.60 | 0.69 | - |
| 110 | 0.11 | 1.07 | - | - | 1.11 | - |
| 111 | 0.03 | 0.69 | 1.10 | - | - | - |
| 112 | 0.01 | 0.40 | - | - | - | - |
| 113 | - | 0.21 | 0.51 | - | - | - |
| Open Int | 124,731 | 43,249 | 4,802 | 105,419 | 33,958 | 250 |

Estimated volume 25,107 Total Open Interest 312,413

### BASE LENDING RATES

| | % | | % | | % |
|---|---|---|---|---|---|
| Adam & Company | 10.5 | Credit Lyonnais | 10.5 | McDonnell Douglas Bnk. | 10.5 |
| Allied Trust Bank | 10.5 | Cyprus Popular Bk | 10.5 | Midland Bank | 10.5 |
| AIB Bank | 10.5 | Dunbar Bank PLC | 10.5 | Mount Banking | 10.5 |
| ● Henry Ansbacher | 10.5 | Duncan Lawrie | 10.5 | NatWestminster | 10.5 |
| B & C Merchant Bank | 10.5 | Equatorial Bank plc | 10.5 | Northern Bank Ltd | 10.5 |
| Bank of Baroda | 10.5 | Exeter Bank Limited | 11 | Nykredit Mortgage Bank | 11 |
| Banco Bilbao Vizcaya | 10.5 | Financial & Gen. Bank | 11 | Provincial Bank PLC | 14 |
| Bank of Cyprus | 10.5 | First National Bank Plc | 14 | Roxburghe Bank Ltd | 11.5 |
| Bank of Ireland | 10.5 | ● Robert Fleming & Co. | 10.5 | Royal Bk of Scotland | 10.5 |
| Bank of India | 10.5 | Robert Fraser & Ptnrs. | 11 | ● Smith & Williamson Secs. | 10.5 |
| Bank of Scotland | 10.5 | Girobank | 10.5 | Standard Chartered | 10.5 |
| Banque Belge Ltd | 10.5 | ● Guinness Mahon | 10.5 | TSB | 10.5 |
| Barclays Bank | 10.5 | ● Hambros Bank | 10.5 | Unibank plc | 10.5 |
| Benchmark Bank | 11 | Hampshire Trust Plc | 13.5 | ● United Bk of Kuwait | 10.5 |
| Brit Bk of Mid East | 10.5 | Heritable & Gen Inv Bnk. | 10.5 | Unity Trust Bank Plc | 10.5 |
| ● Brown Shipley | 10.5 | ● Hill Samuel | 10.5 | Western Trust | 10.5 |
| CL Bank Nederland | 10.5 | C. Hoare & Co. | 10.5 | Westpac Bank Corp. | 10.5 |
| Citibank NA | 10.5 | Hongkong & Shanghai | 10.5 | Whiteaway Laidlaw | 10.5 |
| City Merchants Bank | 10.5 | Julian Hodge Bank | 10.5 | Yorkshire Bank | 10.5 |
| Clydesdale Bank | 10.5 | ● Leopold Joseph & Sons | 10.5 | | |
| Co-operative Bank | 10.5 | Lloyds Bank | 10.5 | | |
| Coutts & Co | 10.5 | Meghraj Bank Ltd | 10.5 | | |

● Members of British Merchant Banking & Securities Houses Association.

## MONEY MARKETS

# UK rates edge down

UK money market conditions were easier again yesterday, as the heavy taxation payments which drained funds from the financial system earlier in the month subsided, *writes Simon London.*

The Bank of England forecast a liquidity shortage of just £100m early in the session, revised up to £200m later but very low compared with daily shortages of over £1bn for most of the year to date. The main factor yesterday was maturing assistance, draining £678m from the market. However, Exchequer transactions added £690m.

There was no clamour for funds in the slacker market conditions and the Bank of England refrained from early assistance. Later in the morning it purchased £40m band 1 bank bills at 10⅞ per cent.

Late assistance amounted to £10m, bringing the total liquidity injection for the day to £50m, £150m less than the forecast shortage.

The unsecured overnight money rate was steady at around 11 per cent for most of the day and closed at 10⅞ - ⅝ per cent.

**UK clearing bank base lending rate 10.5 per cent from September 4, 1991**

Longer rates were also little changed. Three month interbank funds traded at 10⅝ - ½ per cent, slightly easier than the 10⅜ - ⅝ per cent seen Tuesday; one month interbank money was 10⅜ - ⅝ per cent, also a touch easier.

The March short sterling contract on the London International Financial Futures Exchange closed at 89.81, virtually unchanged, implying base lending rates of 10.19 per cent by the Spring.

In Frankfurt, call money rates moved higher again, continuing the trend set earlier in the week. Call money touched 9.70 per cent but settled at around 9.60/70 per cent for most of the day.

The Bundesbank again used special powers to transfer funds held on deposit for the public sector to commercial banks. Similar action was taken on Tuesday and last Friday as the authorities attempted to hold down rates. Pension payments are draining cash from the market this week and putting upward pressure on rates.

In Tokyo, the Bank of Japan injected Y900bn funds in the face of a Y1000bn liquidity shortage. As a result call money traded up to 5⅝ per from 5⅜ per cent on Tuesday.

Three month certificates of deposit traded at around 5.10 per cent, climbing from 4.95 per cent seen at the end of last week.

### FT LONDON INTERBANK FIXING

| (11.00 a.m. Jan.29) 3 months US dollars | | 6 months US Dollars | |
|---|---|---|---|
| bid 4 | offer 4⅛ | bid 4¼ | offer 4⅜ |

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

### MONEY RATES

**NEW YORK**

| Lunchtime | | Treasury Bills and Bonds | | | |
|---|---|---|---|---|---|
| Prime rate | 6½ | One month | 4.07 | Three year | 5.42 |
| Broker loan rate | 6 | Two month | 3.77 | Five year | 6.26 |
| Fed.funds | 3¾ | Three month | 3.92 | Seven year | 6.75 |
| Fed.funds at intervention | - | Six month | 4.02 | 10-year | 7.11 |
| | | One year | 4.11 | 30-year | 7.62 |
| | | Two year | 5.02 | | |

| Jan.29 | Overnight | One Month | Two Months | Three Months | Six Months | Lombard Intervention |
|---|---|---|---|---|---|---|
| Frankfurt | 9.60-9.70 | 9.40-9.50 | 9.40-9.50 | 9.40-9.50 | 9.30-9.40 | 9.75 |
| Paris | 9⅞-10⅛ | 9⅞-9⅞ | 9⅞-9⅞ | 9⅞-9⅞ | 9⅞-9⅞ | 9.60 |
| Zurich | 6⅞-7⅛ | 7⅝-7⅞ | - | 7⅝-7⅞ | - | - |
| Amsterdam | 9.45-9.50 | 9.40-9.50 | - | 9.37-9.42 | - | - |
| Tokyo | 5⅜-5⅞ | 5⅜-5⅞ | - | 5⅜-5⅞ | - | - |
| Milan | 11⅞-12⅛ | 12⅛-12⅞ | - | 12-12⅛ | - | - |
| Brussels | 9⅞-9⅞ | 9⅞-9⅞ | - | 9⅞-9⅞ | - | - |
| Dublin | 10⅞-10⅞ | 10⅞-10⅞ | 10½-10⅝ | 10⅝-10½ | 10⅞-10⅛ | - |

### LONDON MONEY RATES

| Jan 29 | Overnight | 7 days notice | One Month | Three Months | Six Months | One Year |
|---|---|---|---|---|---|---|
| Interbank Offer | 11¼ | 10⅝ | 10⅝ | 10⅝ | 10⅝ | 10⅝ |
| Interbank Bid | 8½ | 10⅝ | 10⅝ | 10½ | 10⅝ | 10⅜ |
| Sterling CDs | - | - | 10⅜ | 10⅜ | 10⅜ | 10½ |
| Local Authority Deps. | 10⅝ | 10⅝ | 10⅝ | 10½ | 10⅝ | 10⅜ |
| Local Authority Bonds | - | - | - | - | - | - |
| Discount Mkt Deps | 9¼ | 10⅛ | - | - | - | - |
| Company Deposits | - | - | 10⅞ | 10⅜ | 10⅜ | 10⅞ |
| Finance House Deposits | - | - | 10⅞ | 10⅜ | 10½ | 10⅜ |
| Treasury Bills (Buy) | - | - | 10⅜ | 9⅞ | 9⅞ | - |
| Bank Bills (Buy) | - | - | 10⅜ | 9⅞ | 9⅞ | - |
| Fine Trade Bills (Buy) | - | - | - | - | - | - |
| Dollar CDs | - | - | 4.05 | 4.05 | 4.08 | 4.37 |
| SDR Linked Dep. Offer | - | - | 6⅜ | 6⅜ | 6⅝ | 6⅞ |
| SDR Linked Dep. Bid | - | - | 6¼ | 6⅜ | 6⅜ | 6⅝ |
| ECU Linked Dep. Offer | - | - | 10⅜ | 10⅜ | 10⅜ | 10 |
| ECU Linked Dep. Bid | - | - | 10⅜ | 10⅜ | 10⅛ | 9⅞ |

Treasury Bills (sell); one-month 10⅛ per cent; three months 9⅞ per cent; six months 9⅞ per cent; Bank Bills (sell): one-month 10⅛ per cent; three months 9⅞ per cent; Treasury Bills; Average tender rate of discount 9.8993 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day December 31, 1991. Agreed rates for period Jan.25, 1991 to February 25, 1992, Scheme I: 11.80 p.c., Schemes II & III: 12.06 p.c. Reference rate for period Nov 30,1991 to December 31, 1991, Scheme IV&V: 10.812 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11 from January 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7 per cent, one-three months 9½ per cent; three-six months 9 per cent; six-nine months 9 per cent; nine-twelve months 9 per cent; Under £100,000 7 per cent from Sept 5,1991, Deposits withdrawn for cash 5 per cent.



## MONEY MARKET FUNDS

### Money Market Trust Funds

[illegible]

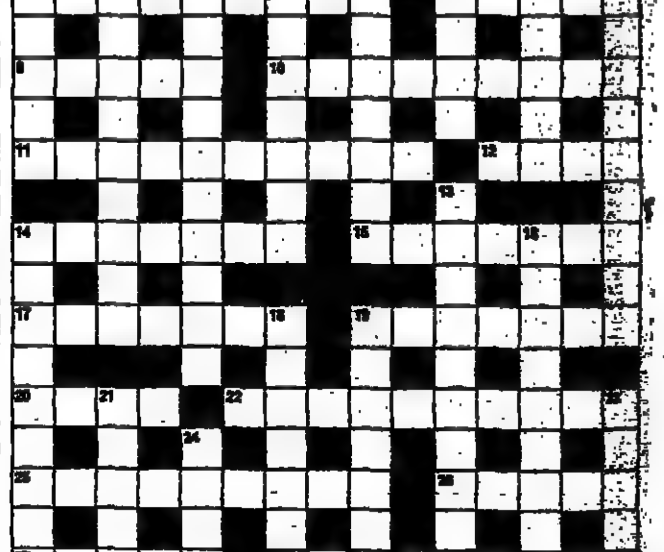
### Money Market Bank Accounts

[illegible]

JOTTER PAD

## CROSSWORD

No.7,760 Set by DINMUTZ



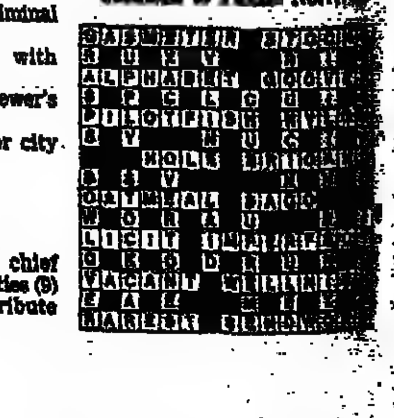
**ACROSS**

1 Very flimsy Tayside city in distress (5-4)
6 Quiet one's steps (5)
9 A near miss in the battleground? (5)
10 Third man making notes, perhaps, in chalk (9)
11 Disc chipped in playing for the cup (10)
12 Settle in ancestral hall (4)
14 Small saloon for travellers (7)
15 An oil spread between ends of Lincoln? (7)
17 Bud, a favour! (7)
19 Skilful to hold a butcher's chopper (7)
20 Common grub in great supply (4)
22 Solitary nipper on the beach? (6-4)
25 Wild road-speed is criminal (9)
26 Run off irregularly with sweetheart? (5)
27 Yates worked as a brewer's agent (5)
28 Perfumed crystals for city turs? (4-5)

**DOWN**

1 Bury factory (5)
2 Afterthought about chief statements of two parties (9)
3 True place to distribute afresh (10)
4 Wary, possibly, after short break in Crusade (4,3)
5 No talking-bird left, it is supposed (7)
6 After a job? (4)
7 Cuisine leader has nothing but some garlic (5)
8 Bribe of two notes, in western style? (9)
13 Lady up the tree? (10)
14 Time spent in the stalls? (6-3)
16 City meat consortium (9)
18 Treasured possession, nagging pet? (3-4)
19 Wellbeing of new form in child's bed (7)
21 She objected to Scargill's openings (5)
23 Grace and favour? (5)
24 Split fee (4)

Solution to Puzzle No.7,759



# WORLD STOCK MARKETS

## CANADA

TORONTO

3:00 pm prices January 29

Quotations in cents unless marked $

MONTREAL

3:00 pm prices January 29

## INDICES

### NEW YORK

| DOW JONES | Jan 28 | Jan 27 | Jan 24 | Jan 23 | 1992 HIGH | 1992 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| ♦Industrials | 3272.14 | 3240.61 | 3232.78 | 3226.74 | 3272.14 (28/1) | 3172.41 (2/1) | 3272.14 (28/1/92) | 41.22 (2/7/32) |
| Home Bonds | 99.56 | 99.43 | 99.52 | 99.44 | 99.61 (17/1) | 98.96 (2/1) | 99.61 (17/1/92) | 54.99 (1/10/81) |
| Transport | 1356.32 | 1356.32 | 1362.29 | 1394.72 | 1445.81 (16/1) | 1342.12 (2/1) | 1532.01 (5/9/89) | 12.32 (8/7/32) |
| Utilities | 213.51 | 213.45 | 214.07 | 213.51 | 225.59 (3/1) | 211.82 (17/1) | 236.23 (2/1/90) | 10.50 (8/4/32) |

♦Day's High 3298.30 (3267.40) Low 3230.99 (3216.23)

### STANDARD AND POOR'S

| | Jan 28 | Jan 27 | Jan 24 | Jan 23 | 1992 HIGH | 1992 LOW | Since compilation HIGH | Since compilation LOW |
|---|---|---|---|---|---|---|---|---|
| Composite ‡ | 414.96 | 414.99 | 415.48 | 414.96 | 420.77 (15/1) | 412.64 (21/1) | 420.77 (15/1/92) | 4.40 (1/6/32) |
| Industrials | 492.48 | 492.51 | 492.86 | 492.01 | 499.27 (15/1) | 490.04 (21/1) | 499.27 (15/1/92) | 3.62 (21/6/32) |
| Financial | 34.54 | 34.49 | 34.53 | 34.45 | 35.14 (15/1) | 33.82 (21/1) | 35.24 (9/10/89) | 8.64 (1/10/74) |
| NYSE Composite | 228.95 | 228.94 | 229.72 | 228.89 | 231.85 (15/1) | 227.64 (12/1) | 231.85 (15/1/92) | 4.46 (25/4/42) |
| Amex Mkt. Value | 412.71 | 412.48 | 413.43 | 414.27 | 415.33 (20/1) | 395.51 (2/1) | 415.33 (20/1/92) | 29.31 (9/12/72) |
| NASDAQ Composite | 621.29 | 621.00 | 624.68 | 622.86 | 630.82 (15/1) | 586.45 (2/1) | 630.82 (15/1/92) | 54.87 (31/10/72) |

| | Jan 24 | Jan 17 | Jan 10 | year ago (approx.) |
|---|---|---|---|---|
| Dow Industrial Div. Yield | 2.87 | 2.83 | 2.89 | 3.88 |

| | Jan 22 | Jan 15 | Jan 8 | year ago (approx.) |
|---|---|---|---|---|
| S & P Industrial div. yield | 2.33 | 2.32 | 2.34 | 3.30 |
| S & P Indl. P/E ratio | 25.60 | 25.76 | 25.51 | 16.03 |

### NEW YORK ACTIVE STOCKS

| Tuesday | Stocks traded | Closing price | Change on day |
|---|---|---|---|
| Unisys Corp | 4,822,900 | 7¾ | + ¼ |
| Citicorp | 4,456,900 | 15½ | + ¼ |
| Compaq | 3,387,400 | 32⅞ | - 2¼ |
| Am T & T | 2,887,300 | 37⅞ | - ¼ |
| Texaco | 2,753,900 | 62⅝ | + 1¼ |
| Intereco | 2,492,300 | ¼ | .... |
| Chase Bank | 1,969,200 | 28⅜ | + ¼ |
| Chrysler | 1,884,900 | 15¼ | + ¼ |
| Procter Gamble | 1,818,000 | 102⅝ | + 5½ |
| Storage Tech | 1,738,000 | 65½ | + 9 |

### TRADING ACTIVITY

| † Volume Millions | Jan 28 | Jan 27 | Jan 24 |
|---|---|---|---|
| New York SE | 217.070 | 190.430 | 210.716 |
| Amex | 19.336 | 18.016 | 21.552 |
| NASDAQ | 230.959 | 196.446 | 240.936 |
| NYSE | | | |
| Issues Traded | 2,199 | 2,185 | 2,194 |
| Rises | 881 | 884 | 909 |
| Falls | 813 | 835 | 797 |
| Unchanged | 505 | 466 | 488 |
| New Highs | 121 | 109 | 91 |
| New Lows | 9 | 8 | 4 |

### CANADA

| TORONTO | Jan 28 | Jan 27 | Jan 24 | Jan 23 | 1992 HIGH | 1992 LOW |
|---|---|---|---|---|---|---|
| Metals & Minerals | 3140.55 | 3162.15 | 3136.31 | 3139.99 | 3238.87 (16/1) | 2995.22 (2/1) |
| Composite | 3623.25 | 3628.30 | 3630.80 | 3624.53 | 3666.00 (16/1) | 3493.66 (2/1) |
| MONTREAL Portfolio | 1906.47 | 1907.35 | 1908.90 | 1909.68 | 1937.59 (16/1) | 1856.55 (2/1) |

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

| | Jan 29 | Jan 28 | Jan 27 | Jan 24 | 1992 HIGH | 1992 LOW |
|---|---|---|---|---|---|---|
| **AUSTRALIA** | | | | | | |
| All Ordinaries (1/1/80) | 1622.1 | 1625.9 | (c) | 1615.8 | 1675.6 (15/1) | 1615.8 (24/1) |
| All Mining (1/1/80) | 685.8 | 686.3 | (c) | 682.1 | 783.5 (20/1) | 660.3 (2/1) |
| **AUSTRIA** | | | | | | |
| Credit Aktien (30/12/84) | 413.59 | 413.96 | 407.29 | 404.81 | 413.96 (28/1) | 372.29 (2/1) |
| **BELGIUM** | | | | | | |
| BEL20 (1/1/91) | 1181.80 | 1183.78 | 1183.30 | 1178.21 | 1183.78 (28/1) | 1097.23 (6/1) |
| **DENMARK** | | | | | | |
| Copenhagen SE (3/1/83) | 361.40 | 362.63 | 361.50 | 360.96 | 365.29 (15/1) | 354.37 (2/1) |
| **FINLAND** | | | | | | |
| HEX General (28/12/90) | 884.6 | 887.1 | 873.9 | 859.6 | 894.5 (14/1) | 779.0 (2/1) |
| **FRANCE** | | | | | | |
| CAC General (31/12/82) | 508.41 | 503.98 | 503.98 | 495.25 | 508.41 (29/1) | 475.53 (2/1) |
| CAC 40 (31/12/87) | 1879.64 | 1890.60 | 1869.27 | 1849.92 | 1890.60 (28/1) | 1749.11 (2/1) |
| **GERMANY** | | | | | | |
| FAZ Aktien (31/12/58) | 680.93 | 682.58 | 684.20 | 677.53 | 687.20 (21/1) | 643.26 (8/1) |
| Commerzbank (1/12/53) | 1927.5 | 1931.1 | 1936.4 | 1916.3 | 1943.5 (21/1) | 1833.8 (8/1) |
| DAX (30/12/87) | 1672.40 | 1683.08 | 1683.58 | 1664.77 | 1685.29 (21/1) | 1578.73 (8/1) |
| **HONG KONG** | | | | | | |
| Hang Seng Bank (31/7/64) | 4671.13 | 4586.33 | 4554.73 | 4600.08 | 4625.44 (22/1) | 4301.78 (2/1) |
| **IRELAND** | | | | | | |
| ISEQ Overall (4/1/88) | 1454.43 | 1452.18 | 1448.47 | 1441.73 | 1469.57 (17/1) | 1391.49 (8/1) |
| **ITALY** | | | | | | |
| Banca Com. Ital. (1972) | 545.07 | 545.31 | 547.68 | 549.10 | 551.83 (16/1) | 507.43 (2/1) |
| **JAPAN** | | | | | | |
| Nikkei (16/5/49) | 21362.26 | 21390.52 | 20807.11 | 20873.15 | 23801.18 (6/1) | [illegible] |
| Tokyo SE (Topix) (4/1/68) | 1584.73 | 1583.47 | 1574.47 | 1584.86 | 1763.43 (6/1) | 1569.43 (21/1) |
| 2nd Section (4/1/68) | 2290.16 | 2283.71 | 2289.59 | 2308.36 | 2459.85 (6/1) | 2283.71 (28/1) |
| **MALAYSIA** | | | | | | |
| KLSE Composite (4/4/86) | 573.28 | 569.84 | 570.55 | 568.78 | 573.28 (29/1) | 546.63 (14/1) |
| **NETHERLANDS** | | | | | | |
| CBS Ttl.Rtn.Gen.(End 1983) | 286.7 | 288.4 | 288.5 | 287.7 | 289.1 (21/1) | 274.0 (8/1) |
| CBS All Shr (End 1983) | 201.4 | 202.6 | 202.6 | 202.0 | 203.0 (21/1) | 192.4 (8/1) |
| **NORWAY** | | | | | | |
| Oslo SE (Ind) (2/1/83) | 712.52 | 722.81 | 727.21 | 712.87 | 748.55 (17/1) | 678.99 (2/1) |
| **PHILIPPINES** | | | | | | |
| Manila Comp (2/1/85) | 1242.04 | 1238.59 | 1268.20 | 1278.60 | 1303.30 (17/1) | 1172.78 (2/1) |
| **SINGAPORE** | | | | | | |
| SES All-Singapore (2/4/75) | 413.88 | 414.92 | 416.13 | 415.63 | 416.99 (21/1) | 402.19 (2/1) |
| **SOUTH AFRICA** | | | | | | |
| JSE Gold (28/9/78) | 1252.6 | 1258.0 | 1273.0 | 1298.0 | 1327.0 (21/1) | 1119.0 (3/1) |
| JSE Industrial (28/9/78) | 4422.6 | 4426.0 | 4428.0 | 4436.0 | 4505.0 (15/1) | 4169.0 (2/1) |
| **SOUTH KOREA**** | | | | | | |
| Korea Comp Ex. (4/1/80) | 659.28 | 665.96 | 675.11 | 658.04 | 675.11 (27/1) | 604.63 (15/1) |
| **SPAIN** | | | | | | |
| Madrid SE (30/12/85) | 253.87 | 255.06 | 253.41 | 251.16 | 258.50 (15/1) | 238.93 (2/1) |
| **SWEDEN** | | | | | | |
| Affärsvärlden Gen. (1/2/37) | 973.70 | 983.30 | 987.30 | 984.7 | 989.2 (28/1) | 913.70 (2/1) |
| **SWITZERLAND** | | | | | | |
| Swiss Bank Ind. (31/12/58) | 773.4 | 779.6 | 779.4 | 771.8 | 779.8 (15/1) | 748.5 (8/1) |
| SBC General (1/4/87) | 625.5 | 631.7 | 631.7 | 628.4 | 631.7 (27/1) | 601.1 (8/1) |
| **TAIWAN**** | | | | | | |
| Weighted Price (30/6/66) | 5398.05 | 5312.67 | 5341.49 | 5293.60 | 5398.05 (29/1) | 4602.17 (6/1) |
| **THAILAND** | | | | | | |
| Bangkok SET (30/4/75) | 768.57 | 766.73 | 771.93 | 781.63 | 781.63 (24/1) | 711.81 (3/1) |
| **WORLD** | | | | | | |
| M.S. Capital Intl.(1/1/70) (§) | 524.9* | 522.7 | 521.8 | 522.5 | 542.1 (7/1) | 520.1 (13/1) |

** Saturday January 25: Taiwan Weighted Price: 5298.99; Korea Comp Ex. 664.39. *Calculated at 15.00 GMT. § Subject to official recalculation.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

### TOKYO - Most Active Stocks

Wednesday 29 January 1992

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Osaka Gas | 14.0m | 556 | 0 |
| Mitsubishi Heavy | 3.8m | 654 | +2 |
| Meiji Seika | 3.7m | 845 | +47 |
| Mitsui | 3.6m | 690 | +10 |
| Kansai Elec Pwr | 3.2m | 2,690 | -60 |
| Meiji Milk Prod | 3.1m | 887 | +17 |
| Toshiba | 2.6m | 686 | -5 |
| Tobu Rail | 2.3m | 764 | +7 |
| Sato Kogyo | 2.2m | 1,300 | -20 |
| Hitachi | 2.2m | 911 | -9 |

*3:00 pm prices January 29*

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1992 High | Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close Quote | Ch'ge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 14¼ | 12¾ | AAR Corp x | 0.48 | 3.4 | 15 | 99 | u14¼ | 14 | 14⅛ | |
| 26 | 22½ | A L Labs A | 0.16 | 0.7 | 26 | 76 | 24¼ | 23¾ | 23¾ | -⅛ |
| 66¼ | 56⅛ | AMP Inc x | 1.52 | 2.3 | 26 | 2370 | 65⅝ | 63½ | 64⅞ | +⅝ |
| 75½ | 68⅞ | AMR | | | 24 | 2652 | 71 | 70 | 70¼ | -1 |
| 2¼ | 1⅞ | ARX | | | 2 | 287 | u2⅛ | 2⅛ | 2⅛ | -⅛ |
| 52¾ | 45¼ | ASA | 3.00 | 5.8 | 14 | 665 | 51¾ | 51 | 51⅞ | -⅞ |
| 68⅞ | 60¾ | Abbott Lab | 1.00 | 1.6 | 24 | 4538 | 63½ | 61¼ | 61½ | |
| 13¼ | 12⅛ | Abitibi Pr | 0.50 | 3.9 | 17 | 9 | 12¾ | 12¾ | 12¾ | |
| 11⅝ | 11⅛ | ACM Gvt In | 1.26 | 11.0 | | 642 | 11½ | 11⅜ | 11½ | |
| 10⅜ | 9½ | ACM GvOpp | 1.01 | 10.1 | | 300 | 10⅛ | 10 | 10 | |
| 9½ | 8 | ACM Gvt Sp | 0.17 | 1.8 | | 371 | u9½ | 9⅜ | 9½ | +⅛ |
| 11⅛ | 10⅝ | ACM Gvt Se x | 1.26 | 11.6 | | 629 | 11 | 10⅞ | 10⅞ | -⅛ |
| 9¼ | 8⅞ | ACM Man | 0.47 | 5.2 | | 184 | u9¼ | 9⅛ | 9⅛ | |
| 12⅞ | 12⅝ | ACM Managd | 1.35 | 10.7 | | 97 | 12¾ | d12⅝ | 12⅝ | -⅛ |
| 9⅝ | 7 | Acme Clev x | 0.40 | 4.3 | 21 | 240 | 9½ | 9¼ | 9⅜ | -⅛ |
| 5⅛ | 4⅞ | Acme Elect | | | 3 | 24 | 5 | 4⅞ | 5 | |
| 33¼ | 30 | Acuson | | | 20 | 1445 | 30⅞ | 30⅜ | 30¾ | -⅛ |
| 19⅛ | 18⅝ | Adams Expr x | 0.48 | 2.6 | 0 | 50 | 18¾ | d18⅝ | 18¾ | |
| 15⅛ | 13 | Adobe1.2P1 | 2.40 | 16.6 | | 6 | 14½ | 14½ | 14½ | |
| 5⅜ | 4½ | Adobe Res | | | 49 | 156 | 5⅛ | 5 | 5 | |
| 48½ | 42⅛ | Ad Micro | | | | 252 | u48½ | 47¾ | 48¼ | +½ |
| 21¼ | 17⅞ | Ad Micro P | 3.00 | 14.3 | | 139590 | u21⅛ | 20¾ | 21 | +¼ |
| 7 | 5 | Advest Grp | 0.16 | 2.5 | 26 | 61 | 6½ | 6⅜ | 6⅜ | -⅛ |
| 45¼ | 42⅝ | Aetna Li x | 2.76 | 6.1 | 8 | 1697 | 45½ | 45 | 45⅛ | -⅛ |
| 10⅜ | 8⅜ | Affil A x | 0.24 | 2.4 | 90 | 844 | 10⅛ | 10 | 10 | -⅜ |
| 32⅞ | 29½ | Aflac | | | | 688 | 30 | d29½ | 29½ | -¼ |
| 17⅝ | 15⅜ | Ahmanson | 0.88 | 5.1 | 8 | 1255 | u17⅜ | 17⅜ | 17⅜ | -⅛ |
| 22½ | 17½ | Aileen Inc | | | 19 | 480 | 22⅜ | 21⅞ | 21⅞ | -⅛ |
| 83⅞ | 72⅞ | Air Pr Chm | 0.80 | 1.0 | 18 | 946 | 81 | 80¼ | 80¼ | -¼ |

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -



Continued on next page

# NYSE COMPOSITE PRICES

Continued from previous page

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

| 1992 High | 1992 Low | Stock | Div. | Yld. % | P/E | Sls 100s | High | Low | Close | Prev. Close Ch'ge |
|---|---|---|---|---|---|---|---|---|---|---|
| 71¼ | 69½ | Xerox | 3.00 | 4.2 | | 12369 | u71⅞ | 69½ | 70½ | +1⅜ |
| 53¾ | 50½ | Xerox4.125 | | | | 4 | 53¼ | 52¼ | 53¾ | —⅛ |
| 25¾ | 24⅞ | Xtra 1 94 | | | | 382 | u26 | 25½ | 25⅝ | +⅛ |
| 31 | 26½ | Xtra Corp | 0.72 | 2.3 | 15 | 509 | u31⅞ | 31 | 31⅞ | +⅞ |
| 27 | 25¼ | Yankee Egy | 1.60 | 6.1 | 13 | 17 | 26¼ | 26¼ | 26¼ | |
| ⅞ | ½ | Zapata | | | | 87 | 323 | ⅞ | ⅞ | ⅞ |
| 9⅝ | 7¼ | ZenithElec | | | | 31443 | 9⅝ | 9 | 9¼ | —⅛ |
| 15⅞ | 15¼ | Zenith Nat x | 1.00 | 6.3 | 132 | 2 | 15⅞ | 15⅞ | 15⅞ | |
| 6⅝ | 5 | Zenus Inc x | 0.84 | 12.9 | | 84 | u6⅝ | 6½ | 6½ | |
| 12⅛ | 11¼ | Zero Corp | 0.40 | 3.4 | 18 | 105 | 11⅞ | 11⅝ | 11⅞ | +⅛ |
| 36 | 35¼ | Zurn Ind x | 0.88 | 2.4 | 16 | 402 | 36⅝ | 36⅛ | 36¼ | —⅛ |
| 14⅛ | 13½ | Zweig Fund | 1.16 | 8.5 | | 310 | 13¾ | 13⅝ | 13⅝ | —⅛ |
| 11 | 10⅝ | Zweig Totl | 0.96 | 9.0 | | 274 | 10⅞ | d10⅝ | 10⅝ | —⅛ |

Price data supplied by Telekurs.

Owing to problems at Telekurs, some North American prices are temporarily being carried ex-dividend early.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

# AMEX COMPOSITE PRICES

3:00 pm prices January 29



# NASDAQ NATIONAL MARKET

3:00 pm prices January 29

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

| Stock | Div. | P/E | Sls 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| [illegible] | | 29 | 920 | 28¼ | 27¼ | 27¼ | —½ |
| [illegible] | | 13 | 7877 | u24½ | 23 | 23¼ | —¼ |
| Yellow Fr | 0.94 | 20 | 1250 | 28⅞ | 28¼ | 28½ | +¼ |
| York Rsch | | 56 | 1313 | 7⅛ | 6⅝ | 6¾ | —⅛ |
| ZionsUtah | 1.44 | 9 | 193 | u46 | 42¼ | 44¾ | +2¼ |

AMERICA

# Package of tax, defence cuts disappoint equities

## Wall Street

ALTHOUGH the president's State of the Union address to Congress on Tuesday night received a muted response from US investors yesterday morning, there was just sufficient demand in the market to lift leading indices to new highs, *writes Patrick Harverson in New York.*

By noon the Dow Jones Industrial Average was up 3.35 at 3,275.49. The more broadly based Standard & Poor's was also firmer, up 2.77 at 417.73 at 1pm, with NYSE turnover at 138m shares, while the Nasdaq composite of over-the-counter stocks added 4.99 at 626.28.

Expectations had been high that Mr Bush would unveil a range of economically-stimulative measures in his speech to Congress, but in the event the package of reductions in defence spending and tax cuts proved a disappointment to a market looking for new reasons to invest in equities, and within half-an-hour of the opening the Dow was 15 points lower. Demand soon picked up, however, and aided by another strong performance from blue-chips, the market returned to record-breaking.

Among individual issues, Philip Morris climbed $1¼ to $78⅛ in busy trading after the big foods and tobacco group announced fourth quarter earnings up from 95 cents to $1.16 a share.

Du Pont also rose on earnings news, climbing $1⅛ to $49⅞, although the chemical group's fourth quarter loss of 36 cents a share would normally have been a blow to market sentiment. Investors, however, seemed convinced that a series of restructuring-related charges totalling more than $700m would prove beneficial to the company, and the stock, in the long run.

Bethlehem Steel, which has benefited in recent weeks from heavy demand for cyclical stocks, dropped $1⅝ to $14⅞ on news of a big fourth quarter loss, the omission of its 10 cents quarterly dividend, and a plan to reduce the workforce by 6,500. In the same sector, Armco tumbled $⅝ to $5 after the company revealed a fourth quarter loss in the wake of charges and a warning from the steel group that it may lose more money in 1992.

Going the other way were Black & Decker, up $1⅛ at $23 in the wake of a "buy" recommendation from the securities house, Salomon Brothers. Several Wall Street analysts posted positive comments about Black & Decker after the company introduced a new line of power tools to the investment community in New York on Tuesday.

Disney, Procter & Gamble, and Merck, the three star performers on Tuesday on the heels of quarterly figures, maintained their upward momentum yesterday, climbing another $1¼ to $142⅝, $4 to $107, and $3⅝ to $156⅝, respectively.

Russell Corp rose $1⅛ to $39⅝ on reports that analysts have forecast that the athletic wear producer has plenty of room for further growth and that its share price will continue to post solid gains throughout the year.

## Canada

TORONTO stocks recouped morning losses to trade narrowly mixed at midday. Most sectors were slightly higher, but there were few market features. The TSE-300 was off 0.45 at 3,622.80 in 13.8m shares, and advances led declines by 258 to 231 with 224 unchanged.

International Corona was among the most active stocks, up C$⅛ at C$5⅛. Corona will be the joint venture operator with Placer Dome on the Eskay Creek gold property. Placer Dome was unchanged at C$12.

Other active stocks included Alcan Aluminium, off C$¼ at C$24⅛, and Imperial Oil, up C$⅜ at C$40⅝.

# Manila recovers after a series of disasters

### The Mt Pinatubo eruption could not stop the market last year, writes Victor Mallet

Political risk looms large in the minds of investors contemplating the Philippines stock market.

Starting from a deep trough, the market was south-east Asia's best performer last year and continued to forge ahead in early January, encouraging brokers in Manila's Makati business district to declare themselves resolutely bullish.

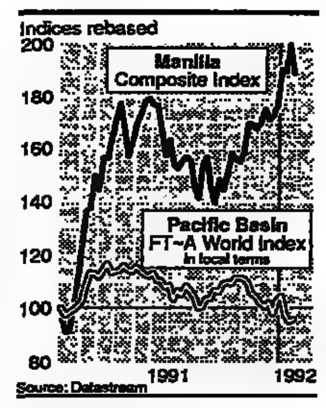
Mr Irving Ackerman, an American broker resident in the Philippines for 37 years, is in tune with the mood of his colleagues and rivals, but he recalls self-deprecatingly how he told the Makati Rotary Club, in November 1989, that Filipinos were about to enjoy their most prosperous period in years. A week later, a failed coup attempt of which economic effects are felt to this day destroyed confidence at home and abroad. "All the things I had said went into the trash can," he says.

A series of disasters, including an earthquake, a typhoon and the Iraqi invasion of Kuwait, followed the coup attempt, and it was only in 1991 – in spite of a severe setback prompted by the eruption of the Mt Pinatubo volcano – that the market recovered from depression. From under 600 in early January last year, the Manila composite index rose to 1,303 by January 17 this year, a performance dented only by inflation of 17 per cent and – for foreign investors – a slight decline in the peso against the dollar.

Over the last 10 days the index has been falling back again, partly because of uncertainty about the outcome of the May elections, although yesterday it recovered 11.45 to 1,242.04.

Speculation by Filipinos disenchanted with property and other investments has been crucial to the stock market's rise, according to Mr Erico Claudio of James Capel. The traditional refuge of the local speculator, the US dollar, became increasingly unattractive as economic reforms and stagnant imports created a plentiful supply of dollars in Manila.

"The stock market here is still very speculative," says Mr Claudio. "It is only in the past few years that trust funds and institutional investors have started looking at the market. Foreigners were not able to ride on this local rise because it did not make sense to them."



Source: Datastream

Brokers say that foreign fund managers in Hong Kong, London and other centres now account for only about 10 to 15 per cent of volume on the rival Manila and Makati exchanges, and have reduced the Philippines share of regional funds to around 3 per cent. A liberalisation of foreign exchange regulations, allowing foreign investors to expatriate money within two weeks to a month after a sale, has improved the market's image, but volume remains modest – typically worth $15m or less a day – and prices volatile.

The Securities and Exchange Commission is regarded as competent but underfunded, and the existence of two competing exchanges, each marking prices in chalk, is inconvenient for foreign investors even if it provides arbitrage opportunities for energetic local brokers.

Last year's rise notwithstanding, brokers have been advising their foreign clients to buy selected blue chips, particularly those which might benefit from increased spending by consumers as politicians spread their money around before the elections.

San Miguel, the beer and food conglomerate, Philippine Long Distance Telephone (PLDT) and Ayala Land remain the favourites, but brokers are advising some of their bolder clients to look at oil and oil service companies likely to benefit from further oil finds and at companies with low price/earnings ratios. One such is the recently floated Manila Electric Co (Meralco), the electricity distributor with a prospective 1992 p/e of less than five; but it has little track record and faces the risk of lost revenue caused by power shortages if drought continues.

Mr Ackerman notes that the dominance of major stocks such as San Miguel makes the rise in the composite index deceptive. "The average is not exactly indicative of the real situation," he says, suggesting there might be more mileage in less well known stocks, in the mining sector for example.

Analysts in the Philippines believe that the market will rise further, but they accept that foreigners are concerned about political uncertainty in the run-up to the elections in May. "That is why investors continue to be cautious," says Mr Villamor Vital, chief strategist at All Asia Securities. Or, as Mr Claudio puts it: "We assume that foreigners will invest after the election."

ASIA PACIFIC

# Nikkei falls back on index-linked selling

## Tokyo

THE Nikkei average, which gained 1.8 per cent on Tuesday, failed to sustain its strength, and share prices edged down yesterday after fluctuating on arbitrage-related trading, *writes Emiko Terazono in Tokyo.*

The 225-issue Nikkei lost 28.26 to 21,362.26. A higher futures market and the overnight strength on Wall Street encouraged buying at the start, and the index firmed to the day's high of 21,581.02 on small-lot bargain hunting. However, buying interest failed to continue, and index-linked selling by arbitrageurs later pushed the Nikkei to the session's low of 21,218.06.

Volume rose slightly to 180m shares from 160m, but remained below 200m shares for the fourth consecutive trading day. Overall advances led declines, however, by 469 to 408, with 218 issues unchanged. The Topix index of all first section stocks was left with a minor gain of 1.26 at 1,584.73, and in London the ISE/Nikkei 50 index put on 3.29 to 1,222.04.

Foreigners turned net sellers, but some traders said European fund managers were waiting to commit funds into the Tokyo market. "Foreign investors want to see an end to the volatility before they come in," said Mr Chris Newton at James Capel.

Bio-technology issues were sought on a government survey released on Tuesday indicating the number of people infected with Aids in Japan grew last year by 2.5 times the previous year's level. Revived popularity in companies developing Aids drugs pushed Meiji Milk Products ahead Y17 to Y397 and Meiji Seika up Y47 to Y845.

Buying spread to other pharmaceuticals, with Takeda Chemical firming Y10 to Y1,260 and Dainippon Pharmaceutical appreciating Y30 to Y1,380.

Mitsui, the trading company, gained Y10 to Y690 on news that it had won a contract to explore and develop oil and gas reserves off Sakhalin with two US concerns. Other resource-related issues were also firm, with Teikoku Oil advancing Y19 to Y754 and Arabian Oil Y120 to Y5,160 on reports of their acquisition of oil deposits rights in Vietnam.

Some high-technology issues were lower on profit-taking. Sharp, a component stock of the Nikkei 225, dipped Y30 to Y1,320 on arbitrage unwinding. Hitachi fell Y9 to Y911 on light selling by foreign investors.

Sega Enterprises, the video game maker, climbed Y300 to Y12,900. Investors were encouraged by the company's estimated 60 per cent rise in pre-tax profits for this fiscal year. Nintendo rose Y200 to Y10,600 on the Osaka market.

In Osaka, the OSE average gained 84.80 to 22,789.70 in volume of 133.4m shares. Buying of small-capital issues pushed up the index, but turnover jumped due to heavy cross-trading ahead of the March book-closing.

## Roundup

HONG KONG remained active, while other Pacific Rim markets were mixed. Australia was affected by inflation figures.

HONG KONG took heart from a statement by Chinese premier Li Peng that China was proceeding with economic liberalisation, although this was not reflected in the market's close. The Hang Seng index ended 15.20 off at 4,571.13 after an early rise was reversed by profit-taking.

The banking sector was lifted by strong fourth-quarter results from Marine Midland Bank, a US subsidiary of Hongkong and Shanghai Banking, which added 50 cents at HK$37.25. Bank of East Asia results are due today, with a 22 per cent profits rise expected.

AUSTRALIA had the All Ordinaries index down 3.8 at 1,622.1. The bond market, weak for the last two weeks, was sold lower in spite of news that December's consumer price index rose only 0.9 per cent, taking the annual rate to 1.5 per cent, the lowest increase for 28 years. A portfolio of some A$50m, 15 to 20 per cent of total turnover, also hung over the market. The banking sector weakened after ANZ announced its long-awaited rights issue: it dropped 17 cents to A$4.20, while Westpac declined 7 cents to A$4.10.

SEOUL fell again on profit-taking. The composite index dipped 6.68 to 659.28 in turnover of Won363bn (Won417bn). Trading was quiet ahead of next week's Chinese new year.

KUALA LUMPUR saw interest in Telekom Malaysia which pushed the composite index up 3.44 to 573.28. Telekom rose 30 cents to M$10.50.

BANGKOK finished mixed, although there was heavy buying in property shares which pushed the SET index 1.84 higher to 768.57 in turnover of Bt6.32bn. The banking sector was also active, with two banks reporting better than expected annual results.

TAIWAN was boosted by a strong financial sector. The weighted index moved up 77.38 to 5,390.05 in turnover of T$53bn, after T$49.8bn. The plastics sector was active on news that a petrochemical project had been approved.

NEW ZEALAND was untouched by Wall Street's gains. The NZSE-40 was down 8.25 to 1,468.55. Fay Richwhite, which is backing New Zealand's America's Cup entry, rose 4 cents to NZ$88.

BOMBAY recorded its fifth record high this month. The BSE rose 42.11 to 2,214.22.

JAKARTA closed sharply higher on a strong industrial sector. The Jardine Fleming index gained 2.9 or 5.1 per cent to 59.45. KARACHI continued to fall, the 100-share index dropping 46.57 to 1,396.74.

## SOUTH AFRICA

JOHANNESBURG's banking sector saw the most activity with ABSA, the finance group, down 75 cents to R10.65 on news that had bought Bankorp for R1.3bn. The all-gold index lost 6 to 1,252. The industrial index shed 4 to 4,422, while the all-share slipped 7 to 3,613.

EUROPE

# Bourses fall as Bush speech fails to impress

MOST BOURSES moved lower yesterday on profit-taking, *writes Our Markets Staff.*

FRANKFURT made a technical correction. After a 1.65 decline to 680.93 in the FAZ at midsession, the DAX closed 10.68 lower at 1,672.40 as volume rose from DM5.9bn to DM6.4bn.

Carmakers lost what they had gained on Tuesday, since the state of the union speech from the US president, Mr George Bush, contained nothing of the rumoured repeal, or cut in the US tax on luxury cars. Daimler fell DM5.70 to DM746 and Porsche by DM16 to DM595.

Deutsche Bank also lost what it had gained in London after hours on Tuesday, after it raised its dividend from DM14 to DM15. It closed at DM700, down DM4.50 on the day and DM7.70 from its London price on Tuesday.

Chemicals were weak after a recent improvement, while steels fell by more than average as they awaited strike ballot news. Retailers were mixed, with some authorities expecting first-half stagnation and others saying that the winter sales, which started on Monday, were going well.

ZURICH extended Tuesday afternoon's adverse London reaction to the downgrading of Crédit Suisse long-term debt by Moody's, the ratings agency, which also put Swiss Bank Corp on its watchlist.

The SPI index fell 10.4 to 1,108.7, and bearer shares in SBC topped the active list as they fell SFr19 to SFr292. CS Holding, the parent of Crédit Suisse, had already discounted the downgrading and its bearers fell SFr5 from the London overnight price to SFr1,905.

STOCKHOLM dropped after the cabinet's rejection of the proposed Volvo-Procordia merger. The Affärsvärlden General index fell 9.6 to 973.7 and Volvo B by another SKr5 to SKr385. A story that the deal was a precursor to a merger between Volvo and Renault of France hit general sentiment. Ericsson B fell SKr5 to SKr124 and Electrolux B by SKr6 to SKr242.

The forestry sector was the biggest loser, down 2.2 per cent. Dealers attributed the decline to the fall in the dollar, which affects the profitability of exported paper and pulp.

PARIS tried to turn higher after a mixed start but was hit by an uncertain opening on Wall Street. The CAC 40 index fell 10.96 to 1,879.64, in turnover of FFr2.4bn.

Paribas, which is backing the construction company Fougerolle's bid for SAE, fell FFr12.50 or 3.4 per cent to FFr355. Lagarge-Coppée fell FFr7.6 to FFr323 on rumours of a costly dispute with minority shareholders in its Spanish subsidiary Asland.

Takeover speculation in the drinks sector lifted Pernod-Ricard by FFr40 to FFr1,495.

MILAN closed little changed as early gains inspired by Tuesday's record close on Wall Street were wiped out by profit-taking. The Comit index eased 0.24 to 545.07 in turnover estimated at close to Tuesday's L87bn.

Olivetti fell L70 or 2.6 per cent to L2,665 in thin volume, in response to news of a partnership between France's Bull and IBM.

Fiat hardly reacted to its 1991 preliminary results announced after the close on Tuesday. Its ordinary shares closed L41 higher at L5,161, but then tumbled to L5,070 after hours. Fiat's results prompted some analysts to issue sell notes. James Capel said that there was a real risk that the dividend would be cut, and that with a 1991 earnings multiple of 41.5 and a probably unsustainable historic yield of 7.1 per cent, the shares looked substantially overvalued.

AMSTERDAM fell back in moderate trading, with the CBS Tendency Index down 0.9 to 121.1. DAF rose Fl 0.60 or 2.5 per cent to Fl 24.80 on car industry talk that the truck manufacturer was a possible takeover candidate. Elsevier rose Fl 1.80 to Fl Fl 103.00 as some analysts took a view that the publisher was undervalued. Nedlloyd pulled back Fl 1.20 to Fl 58.70 as the fun sparked by Tuesday's supervisory board appointments wore off. Fokker closed unchanged at Fl 30.0 in spite of earlier activity on reports that one of its aircraft was being considered by SAS.

MADRID firmed during early trading but closed weaker, the general index down 1.19 at 253.87. Asland, the cement group, shed Pta100 to Pta2,105 on rumours of a dispute. The construction group Ocisa put on Pta350 to Pta4,550 on news of the takeover bid for SAE in which it holds a 15 per cent stake.

ISTANBUL fell slightly in a continued correction after gains on Monday when the index rose above 5,100. The 75-share index closed at 4,983.25, down 36.35.

**FT-SE Eurotrack 100 - Jan 29**

| Hourly changes | | | | | | | |
|---|---|---|---|---|---|---|---|
| Open | 10 am | 11 am | 12 pm | 1 pm | 2 pm | 3 pm | close |
| 1140.44 | 1140.21 | 1139.20 | 1136.79 | 1134.96 | 1133.15 | 1132.10 | 1132.85 |

Day's High 1140.50 | Day's Low 1131.24

| Jan 28 | Jan 27 | Jan 24 | Jan 23 | Jan 22 |
|---|---|---|---|---|
| 1143.22 | 1142.52 | 1131.86 | 1131.98 | 1134.07 |

Base value 1000 (26/10/90).

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

| NATIONAL AND REGIONAL MARKETS | TUESDAY JANUARY 28 1992 | | | | | | | | MONDAY JANUARY 27 1992 | | | | | DOLLAR INDEX | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Figures in parentheses show number of lines of stock | US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | 1991/92 High | 1991/92 Low | Year ago (approx) |
| Australia (69) | 144.90 | +1.6 | 119.65 | 115.04 | 120.27 | 129.15 | +0.8 | 4.28 | 142.64 | 119.04 | 113.07 | 119.88 | 128.17 | 160.31 | 112.74 | 123.02 |
| Austria (20) | 170.40 | +1.9 | 140.70 | 135.29 | 141.44 | 141.74 | +1.4 | 2.04 | 167.15 | 139.50 | 132.50 | 140.48 | 139.75 | 222.37 | 153.86 | 181.04 |
| Belgium (46) | 143.59 | +1.4 | 118.56 | 113.99 | 119.18 | 116.68 | +0.4 | 5.05 | 141.66 | 118.22 | 112.28 | 119.05 | 116.16 | 151.20 | 118.04 | 131.46 |
| Canada (115) | 138.93 | −0.1 | 114.72 | 110.30 | 115.31 | 118.00 | −0.2 | 3.12 | 139.11 | 116.09 | 110.26 | 116.90 | 118.20 | 144.28 | 126.49 | 127.45 |
| Denmark (37) | 265.01 | +0.9 | 218.83 | 210.40 | 219.96 | 223.38 | +0.3 | 1.60 | 262.73 | 219.26 | 208.26 | 220.80 | 222.71 | 273.94 | 217.74 | 239.73 |
| Finland (15) | 87.32 | +2.1 | 72.10 | 69.33 | 72.47 | 80.11 | +2.0 | 3.04 | 85.51 | 71.36 | 67.78 | 71.86 | 78.57 | 125.15 | 73.32 | 97.85 |
| France (109) | 152.91 | +2.1 | 126.26 | 121.39 | 126.90 | 130.60 | +1.0 | 3.39 | 149.81 | 125.03 | 118.75 | 125.90 | 129.37 | 152.91 | 119.11 | 133.38 |
| Germany (65) | 119.23 | +1.1 | 98.45 | 94.66 | 98.96 | 98.96 | −0.2 | 2.33 | 117.99 | 98.47 | 93.54 | 99.16 | 99.16 | 125.35 | 94.15 | 110.82 |
| Hong Kong (55) | 190.18 | +0.7 | 157.04 | 150.99 | 157.86 | 189.45 | +0.7 | 4.00 | 188.91 | 157.66 | 149.74 | 158.77 | 188.15 | 191.57 | 119.62 | 128.87 |
| Ireland (18) | 169.13 | +0.7 | 139.65 | 134.28 | 140.38 | 143.43 | +0.1 | 3.55 | 167.87 | 140.10 | 133.07 | 141.08 | 143.23 | 182.46 | 132.88 | 139.14 |
| Italy (77) | 78.72 | +0.8 | 65.00 | 62.50 | 65.34 | 70.49 | −0.3 | 3.27 | 78.09 | 65.17 | 61.89 | 65.62 | 70.72 | 88.23 | 64.76 | 73.85 |
| Japan (473) | 124.65 | +0.5 | 102.93 | 98.97 | 103.48 | 98.97 | +0.7 | 0.86 | 124.01 | 103.49 | 98.30 | 104.23 | 98.30 | 146.97 | 118.23 | 129.34 |
| Malaysia (68) | 223.12 | −0.6 | 184.24 | 177.14 | 185.19 | 229.27 | −0.2 | 2.86 | 224.38 | 187.26 | 177.85 | 188.57 | 229.69 | 247.78 | 189.18 | 204.45 |
| Mexico (18) | 1517.81 | −0.6 | 1253.29 | 1205.05 | 1259.81 | 5090.49 | −0.7 | 1.02 | 1526.97 | 1274.34 | 1210.39 | 1283.29 | 5125.38 | 1526.97 | 534.45 | 566.29 |
| Netherland (31) | 153.96 | +1.1 | 127.13 | 122.23 | 127.79 | 126.24 | −0.1 | 4.28 | 152.24 | 127.05 | 120.68 | 127.95 | 126.32 | 155.74 | 125.70 | 134.21 |
| New Zealand (14) | 45.89 | −0.1 | 37.90 | 36.44 | 38.09 | 45.07 | −0.6 | 6.10 | 45.94 | 38.34 | 36.42 | 38.61 | 45.36 | 54.64 | 41.18 | 44.17 |
| Norway (25) | 184.59 | +0.1 | 152.42 | 146.55 | 153.22 | 157.59 | −0.6 | 1.65 | 184.34 | 153.84 | 146.13 | 154.93 | 158.51 | 223.24 | 157.06 | 187.24 |
| Singapore (38) | 227.25 | −0.5 | 187.65 | 180.43 | 188.62 | 171.17 | −0.5 | 2.04 | 228.43 | 190.64 | 181.08 | 191.98 | 172.01 | 228.43 | 151.63 | 169.21 |
| South Africa (61) | 255.82 | −0.9 | 211.24 | 203.10 | 212.33 | 181.26 | −0.1 | 2.73 | 258.19 | 215.47 | 204.65 | 216.98 | 181.47 | 271.99 | 173.00 | 175.51 |
| Spain (52) | 156.25 | +1.4 | 129.02 | 124.06 | 129.69 | 119.26 | +0.5 | 4.64 | 154.10 | 128.60 | 122.15 | 129.50 | 118.73 | 171.12 | 131.51 | 146.03 |
| Sweden (25) | 185.86 | +0.2 | 153.47 | 147.57 | 154.27 | 159.72 | −0.9 | 2.80 | 185.58 | 154.88 | 147.11 | 155.97 | 161.20 | 204.12 | 148.60 | 161.03 |
| Switzerland (59) | 101.98 | +1.0 | 84.21 | 80.97 | 84.66 | 89.81 | −0.2 | 2.23 | 101.01 | 84.30 | 80.07 | 84.90 | 89.99 | 103.50 | 82.17 | 91.59 |
| United Kingdom (234) | 182.69 | +1.5 | 150.85 | 145.03 | 151.62 | 150.85 | +0.5 | 4.93 | 179.93 | 150.16 | 142.91 | 151.20 | 150.16 | 187.44 | 156.27 | 165.88 |
| USA (523) | 169.20 | +0.0 | 139.71 | 134.34 | 140.44 | 169.20 | +0.0 | 2.89 | 169.22 | 141.23 | 134.15 | 142.23 | 169.22 | 171.66 | 125.95 | 135.98 |
| Europe (813) | 148.10 | +1.4 | 122.29 | 117.58 | 122.93 | 123.26 | +0.3 | 3.91 | 146.08 | 121.91 | 115.80 | 122.78 | 122.91 | 151.52 | 125.50 | 134.71 |
| Nordic (102) | 186.14 | +0.5 | 153.70 | 147.78 | 154.50 | 152.93 | −0.2 | 2.12 | 185.15 | 154.52 | 146.77 | 155.60 | 153.30 | 200.81 | 155.55 | 176.65 |
| Pacific Basin (717) | 127.22 | +0.5 | 105.05 | 101.01 | 105.60 | 102.45 | +0.7 | 1.19 | 126.54 | 105.60 | 100.30 | 106.34 | 101.79 | 145.92 | 117.96 | 128.74 |
| Euro – Pacific (1530) | 135.86 | +0.9 | 112.18 | 107.86 | 112.76 | 111.45 | +0.5 | 2.37 | 134.64 | 112.36 | 106.72 | 113.15 | 110.90 | 147.66 | 121.29 | 131.51 |
| North America (636) | 167.26 | +0.0 | 138.11 | 132.81 | 138.85 | 165.72 | +0.0 | 2.90 | 167.30 | 139.62 | 132.63 | 140.62 | 165.76 | 169.69 | 125.91 | 135.37 |
| Europe Ex. UK (579) | 127.08 | +1.3 | 104.93 | 100.91 | 105.50 | 107.23 | +0.2 | 3.17 | 125.46 | 104.72 | 99.49 | 105.48 | 107.05 | 129.80 | 103.58 | 115.67 |
| Pacific Ex. Japan (244) | 152.60 | +0.7 | 126.01 | 121.17 | 126.67 | 137.56 | +0.4 | 3.68 | 151.49 | 126.43 | 120.10 | 127.33 | 136.95 | 153.49 | 111.40 | 121.00 |
| World Ex. US (1724) | 138.14 | +0.8 | 114.06 | 109.68 | 114.66 | 113.63 | +0.4 | 2.39 | 137.02 | 114.35 | 108.62 | 115.16 | 113.12 | 148.16 | 122.32 | 132.06 |
| World Ex. UK (2013) | 144.23 | +0.4 | 119.10 | 114.52 | 119.73 | 128.72 | +0.2 | 2.31 | 143.69 | 118.92 | 113.91 | 120.77 | 128.41 | 150.58 | 120.06 | 129.09 |
| World Ex. So. Af (2186) | 146.86 | +0.5 | 121.27 | 116.61 | 121.91 | 130.36 | +0.3 | 2.58 | 146.11 | 121.94 | 115.83 | 122.81 | 130.01 | 153.05 | 122.92 | 132.09 |
| World Ex. Japan (1774) | 161.07 | +0.5 | 133.00 | 127.89 | 133.71 | 148.97 | +0.1 | 3.28 | 160.30 | 133.78 | 127.07 | 134.74 | 148.82 | 161.90 | 126.69 | 135.23 |
| The World Index (2247) | 147.58 | +0.5 | 121.86 | 117.17 | 122.50 | 130.82 | +0.3 | 2.58 | 146.85 | 122.56 | 116.41 | 123.42 | 130.47 | 153.70 | 123.28 | 132.36 |


**Constituent change with effect 30/1/92:** Deletion: Arjomari Prioux (France). Latest prices were unavailable for this edition.

BUSINESS LAW

# Tax bill in US Congress seems to promote takeovers

### By Leo Herzel and William A Schmalz

AN IMPORTANT tax bill pending in the US Congress would permit depreciation of intangibles, including goodwill, for tax purposes. This would appear to eliminate a major US tax barrier against takeovers.

Just a short time ago, Congress had been carefully scrutinising possible tax incentives for acquisitions, such as deductions for interest expense, with an eye towards removing them.

Now it is considering a proposal that appears to increase the tax attractiveness of acquisitions, especially those in which large premiums are paid.

In July last year, Congressman Dan Rostenkowski, who is chairman of the powerful Ways and Means Committee, introduced a bill, HR 3035, adding a new section 197 to the Internal Revenue Code. This was entitled "Amortisation of Goodwill and Certain other Intangibles".

**It seems likely that the bill will become a part of some future legislative package since both the Treasury and the Internal Revenue Service support it**

The bill would provide a uniform 14 year amortisation period for goodwill and other intangibles.

While the bill did not come to a vote during 1991, it seems likely that it will become a part of some future legislative package since both the Treasury and the Internal Revenue Service support it.

Because the bill has such an important bearing on acquisition planning, Congressman Rostenkowski has proposed that, when it is reintroduced into Congress, it should be made retroactive to the date of its original introduction last July.

The inability to deduct or amortise amounts paid for goodwill has long been one of the main constraints in tax planning for acquisitions in the US.

While businessmen recognise that goodwill may be an important business asset, they also recognise that its value may be fleeting. During the 1980s, the large premiums paid in acquisitions often resulted in prices that greatly exceeded the value of tangible assets, further increasing the significance of the non-deductibility of goodwill.

By allowing amortisation of goodwill, HR 3035 would appear to increase the attractiveness of acquisitions.

A closer examination of the proposal, however, reveals that the motive behind it is not to provide a tax incentive for acquisitions.

During the 1980s, as the premiums paid in acquisitions increased so did the incentives for creativity by tax advisers. Acquirers did not accept fatalistically that the large premiums they paid had to be additional goodwill.

Instead, the assets of targets were closely scrutinised to ensure that no possible depreciable or amortisable asset was overlooked.

Along with patents, licences, favourable contracts, the deductible assets uncovered included such items as:

- workforce in place (experience and composition of existing workforce);
- information base (business records, operating systems, etc);
- customer-based intangibles (market share and composition);
- and supplier-based intangibles (any expected special value in the future from the acquisition of goods and services).

In many instances, the result was that the amount of the purchase price remaining to be allocated to goodwill was quite small.

However, the Internal Revenue Service challenged many of these claimed deductions.

Disputes between the Internal Revenue Service and taxpayers involving very large sums of money ensued over whether these intangibles existed, the appropriate period for their amortisation, and the portion of the total purchase price that could be allocated to them.

The disputes are only now beginning to wind their way through the audit process. Final resolutions by settlement or litigation are likely to be years in the future.

Moreover, because of the highly specific factual nature of these disputes, a resolution in one case usually provides only limited guidance for other acquirers and the Internal Revenue Service.

These problems are the driving force behind the proposed legislation.

The uniform amortisation period for intangibles is intended to eliminate disputes over the existence, value and life of intangible assets.

The bill is designed to be neutral with regard to tax revenue although savings are anticipated from the reduction in complex disputes. Hence, the amortisation of goodwill is expected to be financed by increasing the amortisation period for some intangible assets.

For example, acquired computer software would be amortised over 14 years rather than the current five years and covenants not to compete would be amortised over 14 years rather than their likely much shorter lives.

Generally, the benefits (or detriments) of this new legislation would depend on whether an acquirer bought assets rather than stock. Business considerations may limit an acquirer's ability to choose.

For example, an acquirer may strongly prefer to buy assets because of concerns about large, difficult-to-measure liabilities of the business being acquired.

On the other hand, an acquirer who must make a hostile tender offer can only buy stock.

A purchase of stock would not automatically permit an amortisation of the acquired corporation's goodwill since the goodwill itself would not have been purchased. An acquirer could elect to treat a purchase of stock as a constructive purchase of assets for tax purposes and thereby come within the scope of this new provision.

However, generally, this would not achieve the best tax result for an acquirer because of the immediate taxable gain on the difference between the purchase price and the tax basis of the assets.

In any contemplated acquisition, the effects of the proposed legislation should be reviewed in detail.

In situations where, under existing law, large values could be ascribed to intangibles for which a short useful life could be established, this bill might reduce the tax benefits from an acquisition.

**Generally, the benefits (or detriments) of this new legislation would depend on whether an acquirer bought assets rather than stock**

In situations where the major intangible is clearly goodwill, the bill could make the acquisition much more attractive.

Accordingly, even if the aggregate effect on the value of acquisitions is unchanged by the legislation, the allocation of values among individual acquisitions may be changed drastically, making some previously unacceptable deals attractive – and vice versa.

Any company considering an acquisition in the US should analyse the likely effects of this bill and watch its progress in Congress.

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FINANCIAL TIMES SURVEY

# SAUDI ARABIA

SECTION III

Thursday January 30 1992



Saudi Arabia's guardianship of Mecca and Medina, its vital but sensitive relationship with the west and its capacity to influence neighbouring economies through Opec are not only the kingdom's strengths but the key issues which its opponents will try harder to exploit. **Roger Matthews** reports

## Resting on its assets

SAUDI Arabia, protector of the two sites most holy to Islam and possessor of 25 per cent of the world's known oil reserves, emerged jubilant from the Gulf war. With surprising ease the kingdom appears once more to be resting comfortably on its assets, tempered by a new international assertiveness that is being signalled but has yet to be tested.

The public face of the nation is smiling as it contemplates, ever more distantly, the relative military and economic ease with which it escaped the threat of Iraq's President Saddam Hussein. Friendly foreign armies were summoned, arrived, conquered and – most important – departed, with the majority of Saudi Arabia's estimated 8m population having known of their presence only through the media.

Oil is being pumped at near-record levels, the banks are flush with cash and the stock market bulls are rampant. Few optimists would have predicted such a positive outcome in August 1990 when Kuwait had been overrun and Iraqi tanks were at the kingdom's door.

Today there are similarly few Saudis, especially in the business community, who are willing to voice doubts about the future. The deeply conservative and absolute rulers of this still tribal and traditional society seem confident that the country is back on track. In short, nothing much has changed, although whether that is a cause for unqualified celebration is more debatable.

The external credit side of the Saudi balance sheet rests heavily on the assumption that the kingdom's borders are more secure than at any time in its modern history. Iraq and Iran, the two most dangerously ambitious of Saudi Arabia's neighbours, have in the past decade had their military teeth drawn. Their economies have been seriously weakened and hopes of recovery must in part depend on how Riyadh exercises its supremacy within the Organisation of Petroleum Exporting Countries.

Saudi Arabia still needs the scalp of President Saddam Hussein before it will feel comfortable about closing the Gulf war chapter and its recent improvement in relations with Iran is heavily qualified by past memories and by Tehran's continuing support for Moslem militants elsewhere in the Middle East, most recently in Algeria where Saudi Arabia welcomed the cancellation of elections.

Saudi Arabia's guardianship of Mecca and Medina, its vital but sensitive relationship with the west and its capacity to influence neighbouring economies through Opec are not only the kingdom's strengths but the key issues which its opponents will try harder to exploit. The American military umbrella, which could be denied by the Saudis so long as it remained furled and out of sight, had finally to be fully admitted last year.

The participation of other Arab and western forces in the defeat of Saddam's army in Kuwait, however valuable politically, could not disguise the fact that the essential protector of the House of Saud is very visibly the nation still known best to Iranians as "the great Satan". Despite the heavy investment in defence planned by Saudi Arabia during the next 10 years, its ability to counter substantial external threats rests on the country also viewed by many people in the region as hostile to Islam, devoted to Israel and the source of much of their suffering.

To that extent the new world order, so enthusiastically promoted in Washington, is very much the same old order so far as the Gulf is concerned, but with one important amendment.

There is now little pretence that the defence of the Gulf has a wider Arab dimension. Efforts to put together a defence pact between the six Gulf monarchies, Egypt and Syria has made no progress primarily because Kuwait and Saudi Arabia have shown they would rather be under direct American protection.

If that is a gamble then Saudi Arabia's rulers would probably argue that it was one in which they were given little choice, either by the US or by some of their Arab allies. Jordan, the Palestine Liberation Organisation and Yemen were all felt to have betrayed the kingdom by supporting Saddam Hussein and have suffered financially as a result.

But such relatively minor retribution disguises a wider necessity: Saudi Arabia's ability to use financial aid as its most important arm of foreign policy has been severely limited by the costs incurred in helping others to defend its sovereignty.

There is no reason to doubt Saudi Arabia's assertion that the overall cost of the war was close to $60bn. The kingdom was forced to draw heavily on its more liquid foreign assets and to push the budget into deeper deficit. Foreign currency reserves available to the government may have fallen to as low as $5bn last month compared with close to $95bn at the start of the 1980s.

The Saudi Arabian Monetary Agency manages another $50bn, compared with an estimated $125bn in 1981, but much of it is required as backing for the currency and to fulfil other international obligations.

No additional explanation is required for Saudi Arabia's stated determination to sustain its current level of oil production at around 8m barrels a day, its insistence on retaining its market share and the resistance it will mount to growing pressure for it to revert again to its role as Opec's swing producer. For the foreseeable future, Saudi Arabia's aim will be to maximise its revenues while maintaining oil prices within the $16-$23 a barrel range.

How this squares with the cuts in production by Opec members that will be required to accommodate increased Kuwaiti production and the eventual if limited return of Iraq to the market is not explained.

But just in case Opec members believe Saudi Arabia will eventually fall into line they are reminded that the kingdom has embarked on a $15bn investment programme which over the next three to four years will bring the level of sustainable crude production to around 10m b/d.

It would be a very expensive threat if Saudi Arabia had no intention of employing it.

Other Opec producers who are tempted to ignore the implications of Saudi Arabia's production plans might also profitably study the domestic background to the government's decision. Oil revenues remain the overwhelming source of government income in a country where the ruling family appears unwilling to rescind its cradle-to-the-grave welfare provisions.

The private protector is making a larger contribution to the country's gross domestic product, but is not required to match that with personal contributions to the national exchequer.

The taxation of individuals is still not on the government's agenda. Instead it has been forced into the novel experience of tapping international markets for $4.5bn and borrowing more domestically.

Put another way, the government is going to need every cent of the $40bn in revenue that it has forecast from oil exports this year, a figure that is still $8bn below expected spending levels.

The domestic financial squeeze that will emerge more clearly in the coming years is being accompanied by a modest but discernible level of political agitation. The ruling House of Saud earned credit among many nationals for the way it handled the Gulf crisis, but the shock of war also jolted the activists on the political extremes.

Western-educated liberals who argue for a more modern state, and the religious right wing which would prefer it to retreat further into the past, have both privately and publicly been testing the ruling family's tolerance levels.

The response so far has been characteristically muted but the announcement that a Consultative Council will be created suggests that beneath the bland public exterior there may be the faintest stirrings of political reform.

Riyadh: stock market bulls are rampant, the banks are flush with cash and oil is being pumped at near-record levels

### IN THIS SURVEY



■ *Editorial production: Phil Sanders*

**Roger Matthews** examines the economy

# Victory spurred confidence in country's future

SAUDI Arabia's business community says it is feeling happier about the nation's economic prospects than at any time for several years. The Gulf crisis provoked a sharp rise in government spending and military purchases created a boom in commission earnings while the arrival of foreign troops and affluent refugees from Kuwait injected further cash into the commercial sector and increased the demand for service industries such as banking and hotels.

The relative ease of the military victory over Iraq spurred another burst of confidence in the country's future, drawing back to the kingdom funds which had fled during the early stages of the crisis. In their wake came additional money eager to take advantage of new opportunities, prompting a further surge in prices on the small and already overheated stock exchange.

**Reserves held overseas appear to have been drawn down by close to $10bn**

With property prices also showing signs of recovery and the kingdom producing more than 8m barrels of crude oil a day the "feel good" factor, greatly prized by western politicians seeking re-election, has been much in evidence.

In such a positive atmosphere the announcement in the long-awaited budget at the end of December that some $14bn had been allocated for special projects was immediately greeted as another boost for the private sector.

"Since last March there has been prosperity here such as people have not seen for a long time," said one of the country's leading businessmen. "This area has been in recession since 1984. Now there is a sense of being born again, encouraged by the fact that it has been demonstrated that the private sector is no longer 100 per cent dependent on government expenditure."

The euphoria, while all too understandable, cannot be entirely supported by figures. Certainly the economy grew by more than 20 per cent in 1990 as a result of increased oil exports. Last year saw a further 5 per cent rise and total gross domestic product has again topped $100bn, or some two-thirds of the peak it hit in the early 1980s.

But although the Gulf war brought those real advantages to the Saudi economy it was also extremely costly. It has bitten a large chunk out of the country's reserves, increased the probability of bigger budget deficits over a longer period and ensured that military spending will continue to consume an important part of oil revenues.

The government has now paid fully almost all the contributors to Desert Shield and Desert Storm. This includes nearly $17bn to the US, $1.7bn to Egypt, $1.5bn in aid to the Soviet Union, $1bn each to Britain, France, Syria and Turkey, and other substantial amounts to a number of smaller contributors. In addition Saudi Arabia committed itself to arms purchases worth more than $9bn from the US.

Together with the domestic costs of mobilisation, arming, clothing and feeding some of the friendly forces, plus the investment that was required to step up oil production, a final bill of $60bn does not seem unrealistic.

Reserves held overseas appear to have been drawn down by close to $10bn and in addition the kingdom raised an international loan of $4.5bn, a total sum equivalent to just over four months' oil revenues at current rates of production. A better perspective is provided by comparing Saudi Arabia's external position 10 years ago. Then the total funds managed by the Saudi Arabian Monetary Agency and those available to government ministries exceeded $220bn. Today the comparable figure is $55bn, very little of which is easily realisable.

Economists in the kingdom point out that the government could not finance another large-scale military build-up without recourse to much heavier foreign borrowing. They also note that it will be hard pressed to improve its reserve position in the next few years. The current account deficit for 1990 and 1991 is estimated at close to $20bn.

The huge drop in reserves over the past decade has further limited the funds available to the government at a time of increased demand on official spending. Saudi Arabia has coped with budget deficits for the past 10 years but as earnings from overseas assets declined it has been forced increasingly to turn to development bonds and treasury bills to cover the shortfall.

With the banks eager to find ways of mopping up their excess liquidity, the government is confident that the $8bn deficit forecast for this year can again be comfortably covered. But with no let-up likely in demand for government spending and oil prices softening, Saudi Arabia is accumulating deficits at a rate which will impose much heavier debt servicing requirements during the next few years.

**The military establishment's appetite for more sophisticated weaponry has soared**

The government's fiscal difficulties are beginning to pose real problems for the maintenance of a virtually tax-free society. The government has looked at additional revenue-raising measures over the past few years, such as taxing expatriates and licensing cars but has backed off in the face of opposition.

While demands for capital spending on the infrastructure have eased, the level of recurrent expenditure cannot easily be reduced because of high maintenance costs, wage bills and the annual growth rate in the indigenous population of some 3.7 per cent which keeps up the pressure on public services. At the present rate of increase, Saudi Arabia's population will rise by 35 per cent by the end of the century and double within 19 years.

The military establishment's appetite for more sophisticated weaponry and defence systems has soared over the past two years. Together with plans to increase the sustainable output level and develop downstream facilities, this could involve expenditure of at least another $40bn by the end of the decade. Saudi Aramco will meet part of that investment from its own funds, but the overall implications for the budget are clear.

The members of Opec will need to make their own calculations. If the Saudi government is this year predicting its revenues at around $40bn (close to the average achieved in 1990 and 1991) this would suppose, after costs, oil production of some 8m b/d at an average price of about $16. It could, of course, earn as much by pumping less at a higher price. But what the government will not contemplate, even temporarily, is pumping less at a lower price. "The days of the swing producer are over", said one official. "Maybe there are some people still arguing for it, but the simple truth is that we cannot afford to be the swing producer and the others had better understand that."

There are areas where costs could be cut to the benefit of the economy although not perhaps to the popularity of the country's rulers. For example, more than 90 per cent of the water consumed in Saudi Arabia is used for agriculture and the creation of a large wheat surplus which is then exported at a heavy net cost to the exchequer. One economist has calculated that the government could have saved more than $2bn last year simply by reducing wheat production to the level needed for domestic consumption.

It is the sort of calculation which will have to be addressed if Saudi Arabia's spending plans are not to come into more serious conflict with the revenue limitations imposed by western governments which believe that they can now impose a political and financial cap on the price of a barrel of oil.

■ THE BUDGET

# Eagerly awaited guidance

A Saudi Arabian soldier with a Brazilian-made surface-to-surface rocket launcher: More than a third of revenues, or some $14.5bn, has been earmarked for defence and security

NO financial event in the past few months was more eagerly awaited than the publication of the budget for 1992. Announced at the end of December, it was the traditionally sparse document with which Saudis have become familiar, offering a minimum of information.

But in the absence of a budget last year because of the Gulf war it provided the first official guidance since 1990 on how well the economy was performing and, critically for the private sector, how much the government was planning to spend.

In the only official analysis to accompany the figures, the Ministry of Finance and National Economy said that the figures were evidence that Saudi Arabia was undergoing "a major economic revival."

The business community seemed to concur. Expenditure has been set at $48.3bn, 27 per cent up on 1990 and the highest figure since 1985-86, although still far below the $83.5bn budgeted in 1982-83. With revenues estimated to reach $40.3bn, this left a shortfall of $8bn which the government said it had already arranged to cover through local financing.

The projected deficit is $1.4bn greater than the figures that had been projected in 1989 and 1990 but lower than during the recession when in 1987 the deficit had widened to more than $14bn. Since 1982, the last time that the budget was in balance, Saudi Arabia will at the end of this year have accumulated gross budget deficits of approximately $125bn. No guidance is provided on how much of this remains outstanding.

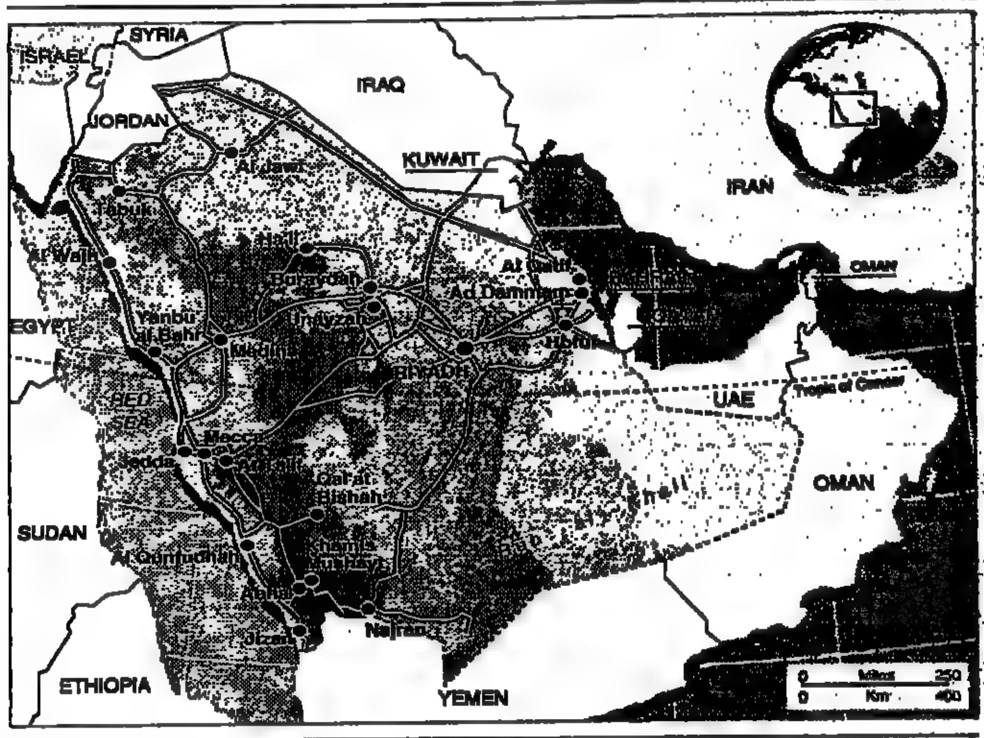
Historically, the government has tended to overestimate expenditure while being conservative about projecting revenue. Given the present weakness of oil prices, the effect on demand of the mild northern hemisphere winter and the re-entry of Kuwait to the oil export market, industry analysts accept as reasonable the projected revenue figure of just over $40bn, although they would be surprised if it turned out to be any higher.

More than a third of revenues, or some $14.5bn, has been earmarked for defence and security. This does not include those arms deals which are paid for in oil. The other big budget items are education ($8.3bn), health ($3.26bn), transport and communications ($2.2bn) and domestic subsidies ($1.9bn).

The largest single sectoral rise has been made in the education budget which is up by $1.32bn. This underlines the huge expansion in the number of students, now estimated to be about 3m, up from little more than 500,000 in 1967. University attendance has more than doubled in the past 10 years and is forecast to continue growing at about 15 per cent a year.

Out of the $48.25bn budget total, the government offers one further division, distinguishing between the $34.4bn which is allocated to recurrent expenditure and the $13.9bn set aside for what are described as special projects. It is this last figure to which the private sector pays most attention, although the government offers no further information about what those projects may be and how many of them are military-related.

**Roger Matthews**



**Mark Nicholson** takes a look at Saudi oil policy

# An era of self-confidence

NOWHERE since the Gulf war has Saudi Arabia demonstrated greater assertiveness and self confidence than in its oil policy.

Since the last pre-war meeting of the Organisation of Petroleum Exporting Countries (Opec) in July 1990, the kingdom has boosted oil production by 57 per cent to 8.5 million barrels a day (b/d), raised its share of the cartel's output from less than a quarter to more than a third and has embarked on a five-year plan to give it sustainable capacity of 10m b/d and surge capacity of up to 12m b/d.

Saudi Arabia, which with 259 billion barrels of oil holds a quarter of the world's known crude reserves, now proclaims that its days as Opec's swing producer are dead. The kingdom is determined to use its dominant position in the organisation to enforce its long-term strategy of price moderation and security of supply – a mix which Saudi rulers are well aware is popular with the US and its other western protectors. In the phrase of one appreciative western diplomat it is a policy of "muscle and moderation".

It is a position Saudi Arabia needed some muscle to achieve. When Iraqi tanks in Kuwait and the world's subsequent embargo against Baghdad deprived the world of six per cent of its oil supply in August 1990, it took Saudi officials what they described as a "month of political pain" to persuade Opec members to allow the kingdom to make up 60 per cent of the shortfall itself, almost at a stroke.

But by August 27 1990, and with the support of Venezuela and the United Arab Emirates – the only other Opec producers with much available spare capacity – Saudi Arabia had won consent to lift production from its pre-war Opec quota of 5.4m b/d to more than 8m b/d. It has maintained this level, on average, ever since.

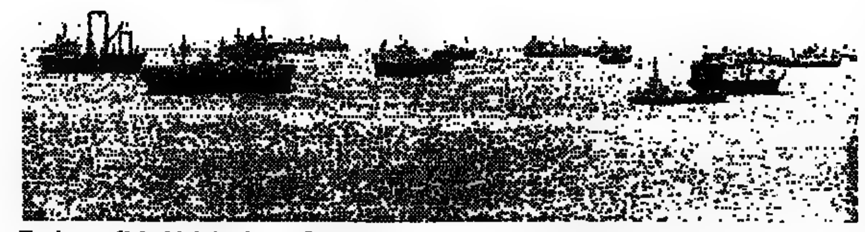
It also took the considerable muscle of Saudi Arabia's notoriously over-designed oil infrastructure to enable so great a production leap so fast. This successful leap, allied with Saudi Arabia's relief at having escaped largely unscathed from the war, is the fountain of its present self-confidence.

However, neither the kingdom's willingness to throw its political weight around nor the sheer size of its oil market clout have been lost on Opec's smaller and more oil price-conscious members. While Iraq and Kuwait have remained off-stage, Saudi Arabia's fractious Opec colleagues have been content to allow the kingdom unbridled production for as long as they themselves have also been free to produce flat out – and while oil prices have largely weathered combined Opec output of more than 23.65m b/d. But with prices now softening and the demand for Opec crude set to make its seasonal spring dip, Saudi Arabia may be forced to flex its moderating muscles.

The next test will come when Opec ministers gather in Geneva next month to decide how to adjust output for a softer market. Price hawks such as Algeria and Iran will be at the forefront of those lobbying for a reimposed discipline, and possibly a reimposition of quotas, to shore up prices.

Saudi Arabia, however, has made it plain that it will countenance output cuts only if these are shared in equal proportion by all Opec members. Moreover, it wants to see cuts made relative to production capacity. If it wins its way, the kingdom will therefore safeguard, at least until Iraq and Kuwait are both back at full production, its augmented share of Opec output and sustained production of about eight million barrels a day.

There is more at stake for the kingdom than holding present market leadership. Although Saudi Arabia raised production during the Gulf crisis to avoid what Mr Hisham Nazer, the oil minister, described as "spontaneous chaos" in the oil market, Saudi Arabia was already proceeding with plans drafted in 1988 for a long-term increase in sustainable capacity to 10m b/d. The Gulf emergency merely accelerated this programme – at an estimated cost of $5bn.



Tankers off Jeddah harbour: Saudi Arabia has raised its share of Opec's output

Since the war, Saudi Aramco, the state-owned oil company, has proceeded apace with plans to implement the new capacity in a programme which, Saudi officials say, will finally cost $10bn-$15bn and which they expect to be completed by early 1995.

The first phase largely entailed dusting-off facilities unused since the kingdom last pumped more than 8m b/d during the early 1980s. During the Gulf air war, the kingdom revived 146 wells and 12 gas oil separation plants (Gosps) in the southern oilfields of the Eastern Province. Aramco also drilled 51 wells and 21 water injection wells to keep production hovering at 8.5m b/d. Eight more Gosps were brought out of mothballs elsewhere in the kingdom.

Work on the next stage of developing new oilfields and equipping them with pipelines, gathering stations and new Gosps, is now in train. By late last year, Aramco had appointed five project managers to oversee this development: Ralph M Parsons, Fluor Daniel, John Brown, Stone & Webster and Abb Lumus Crest.

Ralph M Parsons has already pre-qualified contractors for the work at Hawiyah in the Ghawar oilfields, Saudi Arabia's largest, where $200m worth of construction is needed to complete a new 300,000 b/d Gosp and expand pumping and handling facilities. Fluor Daniel has also started co-ordinating work worth an expected $700m to upgrade plant in the Marjan and Zuluf northern oilfields.

Perhaps the most intriguing project will be the development of the virgin Hawtah and neighbouring oilfields south of Riyadh. John Brown Engineers, the UK-based company, last year won the project management contract for the fields which are known to hold substantial reserves of premium light crude. No official reserve figure has been quoted for the Hawtah field, although there are murmurings of five billion barrels of sweet crude in this area. Some analysts also believe that the oil found there could be extremely light.

The new southern fields are also close to the east-west pipeline linking terminals on the Red Sea and Gulf coast, which the kingdom is also planning to expand from its present capacity of 3m b/d to 5m b/d.

These expansion projects represent the base for the kingdom's ambitious plans to expand and upgrade its refining capacity while also broadening and deepening its already large petrochemicals industry. Moreover, along with its planned internal oil industry integration Saudi Arabia is also pursuing integration with its main consumer markets through joint venture refining deals in Japan, south Korea, the US and perhaps, eventually, Europe.

With such ambitions propelling Saudi Arabia's assertive position within Opec, the kingdom has little inclination to relinquish its new dominance in the organisation. Saudi officials are convinced that Opec can, with a commitment to flexible but moderate prices and to security of supply, fend off any threat from alternative energy sources well into the next century. It also sees Opec as a powerful lobby through which to oppose the imposition in the west of environmental taxes on gasoline, which might in turn threaten oil producers.

However, at least in its present post-war flush of confidence, the kingdom seems indisposed to suffer gladly anything it perceives as Opec foolishness. "If other producers cheat on output by so much as a barrel, the Saudis will cheat by a million to teach them a lesson," suggests one oil industry analyst.

■ REFINERIES AND PETROCHEMICALS

# Gargantuan ambition

BECAUSE Saudi Arabia tends not to do things by half, it should perhaps only be expected that just as the country is engaged in raising oil output capacity to 10m barrels a day, it is meanwhile busy with a complete overhaul and expansion of its oil refining and petrochemicals industry.

And, as with the upstream plans, the scale of cost and ambition for the downstream plan is gargantuan. Including Saudi Aramco's plan to lift oil production, oil analysts reckon the kingdom is on track to spend more than $33bn on developing all aspects of its oil industry by the end of the decade. This figure includes at least $10bn on upgrading its domestic refineries, $6bn on the petrochemical industry, and nearly $2bn on extending its oil tanker fleet.

The expansion plans follow a rationalisation of the kingdom's downstream industries since the arrival in 1986 of Mr Hisham Nazer, the oil minister, in the seat vacated by Sheikh Zaki Yamani.

The expansion is aimed at making Saudi Arabia the world's largest producer of unleaded petrol, to lock as much oil into partly-owned refineries in its main market so as to guarantee demand, and to increase and diversify the kingdom's petrochemicals catalogue.

Both the refining and petrochemicals expansion are already in progress although Saudi officials stress that the full programme will not be complete before the end of the decade. And there are additional plans by Saudi Aramco, already the world's biggest oil company, to expand its shipping fleet. Thus, the kingdom expects by the year 2000 to fully integrate its domestic oil industry, and lock its production firmly into western and East Asian markets.

Oil minister Hisham Nazer: confirmed South Korea deal

The principle behind this integration is "reciprocal security" between the kingdom as supplier and its main markets. "It's widely held that where there's more integration in the oil markets, there's more stability," says one Saudi official. "Saudi Arabia is looking for stability."

Mr Nazer began by making organisational sense of the country's upstream interests, gathering the previously independently managed domestic refinery under the umbrella of Samarec, which was formed in 1989 to market and refine the kingdom's oil.

Lubricating oil companies were similarly gathered under the wing of another new creation, Petrolube, and the Ministry of Oil and Petroleum, which acts as the holding company for these new concerns, is busy with plans to create a further group to manage mining and minerals. For this prospective company, the government is understood to be interested in finding foreign joint-venture partners.

Once rationalised, Samarec began its expansion plans in 1989 and suffered only temporary interruption during the Gulf war. In July last year, Samarec awarded to Foster Wheeler, the US heavy engineers, the project management contract for upgrading the kingdom's three main domestic refineries at Jeddah (capacity 90,000 barrels a day), Riyadh (134,000 b/d) and Yanbu (170,000 b/d). Phase one of the project, to be completed by 1996, will cost $2bn and later phases an extra $6bn. Both joint venture export refineries, with Mobil at Yanbu (250,000 b/d) and Shell at Jubail (250,000 b/d) will be similarly upgraded.

Samarec's primary aim is to upgrade "bottom of the barrel": enabling its refineries to produce higher octane petrol from the kingdom's heavier crude oil. Samarec is also boosting production of octane enhancers, notably Methyl Tertiary Butyl Ether (MTBE), a lead substitute for petrol, to enable the kingdom to meet the domestic imperative announced by King Fahd, the Saudi ruler, of meeting domestic petrol needs of 500,000 b/d entirely with unleaded petrol by 1994.

Ras Tanura, the country's biggest refinery, with capacity of 530,000 b/d, is also to be overhauled in a project expected to cost as much as $2bn for the first phase of upgrading. Saudi Aramco, which runs the refinery, in an apparent and unexplained exception to the Samarec reorganisation, has signed Brown & Root as project managers for the six-year first phase with options for two three-year extensions. Should the latter be taken up, the final bill for the refinery's overhaul could top more than $10bn.

**Domestic refining plans are only a part of a global strategy to expand downstream operations**

The country's other main refinery, the 325,000 b/d Rabigh plant, which is jointly owned by Samarec and Mr John Latsis, the Greek investor, Saudi officials say they prefer not to discuss. Officials say the costly refinery is too basic to fit in with their upgrade plans and that the investment was just the sort of thing they hope in future to avoid with the newly rationalised Samarec.

The kingdom's domestic refining plans are only a part of a global strategy to expand downstream operations. Since Saudi Aramco signed a 50-50 joint refining deal with Texaco, the kingdom has sought to guarantee market access for its crude in its main consumer market through participatory ventures.

Under the Star agreement, Texaco receives up to 600,000 b/d of Saudi heavy crude for its East Coast refinery in the US. This guarantees a market for the Saudi oil and pleases Texaco by giving them a secure flow of the same type of crude, enabling their refineries to fine-tune and yield higher quality petrol.

In August last year, Mr Nazer confirmed a second deal with the Ssangyong Oil Refining Company of South Korea, under which, Aramco acquired 35 per cent of the group's equity and an agreement to supply up to 300,000 b/d of oil to the Korean group's two refineries and petrochemical plants.

This month, feasibility studies on a third such deal were announced with Japan. Saudi Aramco, in tandem with Nippon Oil, Nippon Mining and Arabian Oil Company of Japan, is to study investment in 450,000 b/d of refining capacity in Japan, while studying plans for a further 300,000 b/d refinery in Saudi Arabia. Neither costs nor dates for the project have yet been outlined. Saudi officials say there is also "the intent" to forge a similar deal in Europe although there have been no decisions reached on where.

Officials say there is no "magic figure" for the amount of Saudi crude oil they wish to see locked into these overseas deals. Some oil analysts say the kingdom may be trying to assure overseas markets for up to half of total crude production by the end of the century.

Further downstream, the kingdom is also investing heavily in extending its petrochemicals industry, its fastest growing manufacturing sector. The industry grew by 3.9 per cent a year between 1984 and 1989 and comprised 3 per cent of GDP in 1990.

Sabic, the state-run industrial company, is well into a $6bn expansion plan designed to double its capacity from the present 10m tonnes a year of liquid petrochemicals, plastics, resins, steels and fertilisers by the mid 1990s, including more than doubling the output of MTBE to 1.2m tonnes a year.

**Mark Nicholson**

## SAUDI ARABIA 4

**David White** reports on defence procurement

# Curbs on funding emerge

BY the time of the war against Iraq a year ago, Saudi Arabia had become the world's biggest importer of arms.

The crisis over Kuwait could only reinforce its arms-buying ambitions. To Saudi Arabia and the other countries of the Gulf Co-operation Council the war brought home a hard reality: that however much they had already spent on defence, they still could not match the threat.

However, the conflict has not given way to the spectacular weapons buying spree that some had expected. Several changes have taken place affecting the country's arms supply relationships.

One is the emergence of funding constraints. A report on the arms trade by the US Congress's Office of Technology Assessment last year spoke of the Saudi Arabia's' "virtually unlimited amounts of cash". But, after payment of its own and the allies' war bills and its excursion into government borrowing, funds are not as unlimited as they were.

Secondly, the Saudi authorities have clearly given priority to the expansion and improvement of base installations including hardened shelters to receive aircraft in the event of a renewed crisis. The availability of large modern harbour and airfield facilities was crucial to the ability of the US and other allies to assemble forces after Kuwait was invaded.

At same time, western defence companies, having enjoyed only a short-lived boost from the war itself, are facing sharp cutbacks in their domestic markets after the end of the Cold War in Europe. Suppliers are competing desperately against each other for export business. The Saudi market is all the more important to them now that Iraq is completely excluded as a customer. Saudi Arabia is also increasingly seen by suppliers as an essential first foothold for supplies elsewhere in the region.

According to the Stockholm International Peace Research Institute (SIPRI), Saudi Arabia was second only to India and Japan as a customer for big conventional weapons in the period from 1986 to 1990. In the last year of that period it overtook both those countries to become the biggest single customer, with imports, calculated at constant 1985 prices, of $2.55bn. Over the five years its total purchases of $10.8bn (still at 1985 prices) were bigger than Iraq's and more than a tenth of arms purchases by the developing world.

The modernisation of Saudi defences began in earnest during the post-1973 oil boom and created a field for all-out competition between the US, Britain and France.

France secured its place in the early 1980s with a naval deal including four frigates and with sales of the Shahine, a version of the Crotale anti-aircraft missile mounted on tanks. The French have since kept a foot in the door with sales including coastal defence helicopters and, shortly before the war, a further FFr3bn ($550m) worth of air-defence missiles.

In the mid-1980s, Saudi Arabia was poised to purchase French Mirage 2000 interceptor fighters to complement additional supplies of F-15 combat jets it was seeking from the US. But US unwillingness to allow it to have the long-range strike version of the F-15 prompted it to switch to the Anglo-German-Italian Tornado instead, to fulfil both interceptor and ground-attack roles. Around that choice was built the wider Anglo-Saudi Al Yamamah agreement, paid for through the revenue from a dedicated share of Saudi Arabia's crude oil output.

Saudi troops head for Kuwait during the Gulf war. Saudi Arabia was second only to India and Japan as a customer for big conventional weapons in the period 1986-90

The initial deal, which also included trainer aircraft and support, was bolstered by another framework agreement in 1988, the fruits of which – in terms of equipment supplies – are still awaited. The deal has a potential value of some $40bn, but the funding system has proved to be an obstacle, making it difficult to accumulate a lump sum sufficient to cover new contract for supplies on the Saudi "wish list". This list has included some 48 more Tornado strike aircraft, about 60 more Hawk jet trainers, six minehunters and 88 armed helicopters to be made under US licence, as well as a big new air base at Al Sulayyil, 300 miles south of Riyadh, and other infrastructure projects.

**The Saudi authorities are expected to keep seeking a diversity of sources because of restraints on their access to some US weapons**

So far, however, the only military equipment items ordered under the second phase of the deal have been three of the minehunters, of which one has already been delivered. How much of the remainder the Saudis will buy, and when, has been uncertain. Confidence in the Tornado sale, which had been called into question before the war, was bolstered by the aircraft's performance and British Aerospace's support during the campaign against Iraq. But Tornado production in the UK is being run down and re-starting it threatens to be costly.

The Saudi authorities are expected to keep seeking a diversity of sources because of continuing restraints on their access to some US weapons. A request for 72 more F-15 jets, including the two-seat F-15E strike version denied to them in 1985, is being held up. McDonnell Douglas, the manufacturer, needs the order to keep its F-15 production line at St Louis open beyond 1994. Saudi Arabia is the only Middle East country other than Israel to possess the F-15. Pressure from the pro-Israeli lobby in Congress led to a limit of 60 aircraft, but this was lifted after the invasion of Kuwait in 1990 when 24 were supplied from the US Air Force inventory. Deliveries of another 12 new aircraft already on order are progressing.

US contracts in the 1980s also included Awacs early-warning aircraft and refuelling tankers, and a sophisticated command and control system under the Peace Shield programme.

After complaining of delays in this project, which involves setting up six underground command centres, the Saudis cancelled the bulk of Boeing's $1bn contract just before the outbreak of hostilities against Iraq, and subsequently brought in Hughes, its rival, instead.

A series of package deals were agreed with the US in 1990, including, before the invasion of Kuwait, 315 of the latest M1A2 Abrams tanks and, after the invasion, emergency supplies from US stocks and more than $7bn of new equipment including more Abrams tanks, thousands of wheeled vehicles, Patriot air-defence missile batteries, multiple-launch rockets, Apache helicopters, transport and tanker aircraft. But a second stage to this deal, which would have brought the total value to more than $20bn, was suspended by Washington.

General Dynamics is hoping to sell a further 235 M1A2 Abrams to the Saudis, bringing its total sales there to 700. Production of the tank was to have been halted next April as a result of US defence budget cuts. Saudi orders so far are enough to keep it going for another three years. The additional order, the company says, depends on "evolving national policy towards the Middle East."

Vickers of the UK is competing to meet the same Saudi requirement with its new Challenger 2, being promoted outside the framework of the Al Yamamah agreement. Saudi officials attended UK trials of the tank in the autumn and hot-weather trials are planned in Saudi Arabia this summer. If Vickers' hopes materialise, the company would be producing significantly more of its new tanks for the Saudis than for the British army.

■ FOREIGN POLICY

# Changing attitudes

IRAQ'S invasion of Kuwait posed immediate foreign policy choices for Saudi Arabia which it had always sought to avoid. None of the western defence experts who watched Saudi Arabia's military response to the armoured threat poised on its border in August 1990 doubt that the correct political decisions were made, despite the continuing discomfort felt by the country's rulers.

Had Iraqi President Saddam Hussein chosen to make a substantially larger gamble by invading Saudi Arabia, the forces which could have been quickly assembled to challenge a thrust into the eastern province would almost certainly have been unequal to the task.

Indeed, during the first two weeks of the crisis and probably for much longer than any generals would care to admit, it is debatable whether Riyadh could have been successfully defended.

Many Saudis have expressed their pride at the manner in which particularly their air force and National Guard subsequently performed, but little appears to have happened to dispel the anxiety that was generated over the reactions and determination of the country's main armoured units.

The consequence was one that US military planners had long prepared for: a massive military deployment to secure the industrialised world's oil supplies in Saudi Arabia, followed by the reduction of the external military threat. So effectively was the Iraqi threat dealt with that, against most predictions, US and other allied forces were able to begin withdrawing immediately after the liberation of Kuwait and the conclusion of hostilities.

The reaction of the rest of the world, and especially the Arab nations, to the fall of Kuwait has done much to shape and change Saudi attitudes. A natural member of the moderate and conservative majority within the Arab League, Saudi Arabia's previous diplomatic initiatives had been mainly confined to searching for and sometimes financing compromises between disputing members. With the occupation of Kuwait, it found itself for the first time in the front line and the key player in the crisis.

The Gulf Co-Operation Council (GCC), which links Saudi Arabia with Kuwait, Oman, the United Arab Emirates, Qatar and Bahrain, had been formed a decade before, in response to the war between Iraq and Iran. Although the GCC's public purpose was to create a loose economic grouping, there had even then been voices on the edge of the inaugural conference warning that the eventual winner of the Iran-Iraq war would be unlikely to return its troops immediately to barracks. It was also apparent that the best the GCC members could ever do militarily would be to deter a threat long enough for their western friends to come to the rescue.

For once, events in the Middle East unfolded according to character. Arab governments, especially those most closely involved with Iraq, sought to find a solution within the Arab League and failed.

Saddam Hussein's most implacable enemy, Syria, offered its forces to help punish him. Egypt remained firmly alongside the US, the Palestine Liberation Organisation headed off in the opposite and wrong direction, while Iran's desire to see Iraq crushed was qualified by the build-up of US forces in the Gulf.

Like most inter-Arab disputes, divisions are rectified either by time or by the emergence of a greater common threat. Saudi Arabia's initial sense of betrayal was most sharply directed at Yemen – whose workers were told to leave the kingdom, at King Hussein of Jordan, and PLO chief Yassir Arafat.

Individual members of the royal family still refer to King Hussein in the most bitter terms, although relations between the two governments are slowly improving. Some economic assistance has been resumed to Jordan and there is considerable common ground between the two countries in their support for US efforts to build on the slight progress towards a Middle East peace settlement.

Saudi Arabia should also have drawn its own conclusions from the level of popular support that Saddam Hussein's aggression initially attracted in North Africa and among the Palestinians. In those economically deprived areas, there was little hint of sympathy for the people of Kuwait and, as the first round of voting in the aborted Algerian elections demonstrated, there is enthusiasm for those campaigning under the banner of Islam.

The enthusiasm with which Iran has backed the politicisation of Islam in North Africa could yet threaten its rapprochement with Saudi Arabia, which has seen the resumption of diplomatic relations and is awaiting an official visit to the kingdom by President Hashemi Rafsanjani. The competition in Tehran between the advocates of a consistently militant foreign policy and those who wish to lay greater emphasis on pragmatic economic co-operation makes future relations between Iran and its closest neighbours even more difficult to predict.

For Saudi Arabia, and more especially for Turkey, a new dimension has recently been added by the emergence of six new Islamic republics in what was the Soviet Union. Iranian delegations have been busy in all six republics, and it has plans to open embassies in three of them. Saudi Arabia is moving along similar lines and the US is being spurred to take a greater interest because of the substantial nuclear arsenal sited in Kazakhstan.

Initial indications are that the five predominantly Sunni Moslem republics are most likely to adopt secular, free market policies oriented to the west. Iran, however, may feel it has a particular advantage in Tajikistan where the language is closer to Farsi.

The common interest of the six GCC countries, Egypt and Syria in rolling back the Iraqi invasion of Kuwait and now in seeking to counter the use of Islam as a political tool has not, however, produced many more practical results.

The Damascus agreement on regional security, signed by the eight nations in March, seems unlikely to be taken much further. Saudi Arabia believes it paid generously for the involvement of Egyptian and Syrian battalions in the Gulf war, but officials say that there was never any possibility of them being stationed for any length of time in the kingdom. Explanations for this range from doubts about their military efficiency to the tensions that might arise over the vastly superior pay rates of the Saudi forces.

Hazardous though it is to draw broad conclusions too soon after momentous events, the challenge of Saddam Hussein does appear to have confirmed two trends. First, those countries sheltering under the protection of the US have more emphatically reaffirmed that choice, rather than seeking a broader Arab consensus. Officials in Riyadh speak of their country as America's main strategic ally in the region and further substantial military expenditure in the years ahead is designed to underline that status.

Second, Islam seems certain to be used increasingly as the rallying point for the politically and economically deprived and in opposition to US allies in the Middle East. Saudi Arabia's reluctance last September for its bases to be used to exert further US military pressure on Iraq emphasised that, despite its strategic choice of a defensive partner, it would again prefer American troops to remain out of sight.

The virtual withdrawal of the Soviet Union as an influential player in the Middle East should provide Washington with a unique opportunity to work for a more durable political order, or just as easily the excuse to turn its attention to other issues.

US President George Bush and Mr James Baker, the secretary of state, have shown a desire to satisfy some of the Palestinians' political aspirations and are supported in this by Saudi Arabia. But if the US backs away from the issue in the face of determined Israeli opposition, the rulers of Saudi Arabia may be made ever more aware of the hard choices forced on them by the aggression of Saddam Hussein.

**Roger Matthews**

**Roger Matthews** on domestic consequences of the war

# Rulers under pressure

THE DOMESTIC consequences of the Gulf war with Iraq and the presence of several hundred thousand non-Moslem troops in Saudi Arabia are still being played out nearly a year after the fighting ended.

The military conflict served to put the ruling elite under pressures which they had not experienced before, while providing opportunities for activists at the edges of Saudi society to press for more emphatic changes in the way the country is run.

Saudi society and its closed family-oriented political structure is ill-equipped to respond quickly to demands for change. There is no public debate and very little official information. The role of the media and the ministry responsible for information appears designed to support that objective. The royal families and the technocrats who serve them in government much prefer to resolve issues privately and to act decisively only when majority opinion appears to demand it. It is a measure of such a society that the two issues which have most gripped public attention during the past 18 months are both at the limits of western comprehension, but at the heart of Saudi Arabia's social and political evolution.

First was the decision in November, 1990, by 45 Saudi women, many of them graduates, to drive in 15 vehicles through the centre of Riyadh in protest at the continuing ban on women drivers. It was a public challenge to authority, an almost unheard-of event in the kingdom. The women were detained, interrogated, forced to pledge never to repeat the protest, and dismissed from their jobs. Some have since been allowed to return to work.

Second, came the backlash from the other end of Saudi society, the religious right. Already disturbed by the sudden influx of so many non-Moslems – including no small number of American women soldiers who not only drove vehicles but carried guns – the mutawwa, the civilian enforcers of strict adherence to Islamic behaviour, began to hit back.

During the last three months of 1991, they made the most simple aspects of daily life outside the home increasingly irritating for both nationals and expatriates. The dominant topic of conversation at expatriate gatherings was, and probably still is, the latest reported excesses of the mutawwa in harassing women deemed to be incorrectly dressed, or men failing to observe prayer-time.

Their activities reached such a peak, particularly in the capital, that many people stayed at home and shopkeepers reported a sharp decline in business during the traditionally buoyant sales period leading up to December 25.

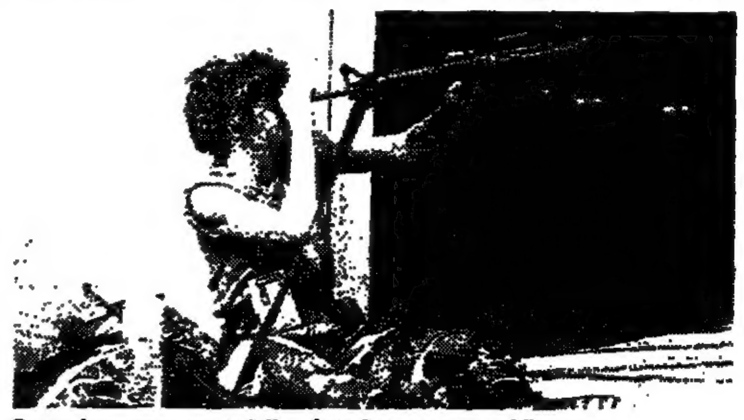
At this point, the authorities intervened. Precisely how, it is not clear, but the number of mutawwa on patrol dropped sharply. Diplomats interpreted the official response as part of a wider move to dampen the activities of a growing group of younger clergy whose ambitions appeared to go beyond traditional limits.

Saudis have been aware for some time of the emergence of younger ulema (preachers) who had been better educated than their predecessors and were far more aware of the religious implications of Saudi Arabia's international action. "They are not very sophisticated people, but, unlike the old men before them, they have made it their business to know about oil policy and they watch things like our relations with the US and how this ties in with the Palestinians and Israel," said a local businessman.

International human rights organisations have reported that two or three of the more politically challenging ulema have been detained and several have been warned or prevented from preaching on Fridays. The religious establishment has also weighed in with a series of statements issued by Abdel-Aziz bin Baz, the country's leading cleric, reaffirming Islam's traditional role.

The longer-term significance of the challenge by the militants is unclear. Some Saudis insist that it is part of a cyclical pattern and will quickly fade. Others are less confident and predict that Saudi Arabia's rulers will have to contend with increasingly less pliant clerics who have already shown that they reject the line that was previously thought to have been drawn between religious and political activities.

They also stress that the challenge is not coming as had been expected from the historically more militant Shia minority in the eastern province, but from within the Sunni majority.


Cause for concern: gun-toting American women soldiers

The hatred expressed by Saudi Shias for Iraqi President Saddam Hussein, both as a result of the eight-year Iran-Iraq war and because of the way their Iraqi co-religionists were subsequently crushed by Baghdad, is said to have made them among the most committed government supporters during the past 18 months.

King Fahd has simultaneously faced renewed demands from the country's liberals, often western-educated graduates, for a more open system of government that better reflects the changes that are taking place in the kingdom and in the outside world.

Petitions from such groups in the past year appear to have spurred the King into announcing a firmer commitment to creating a Consultative Council, something he has been promising since his accession to the throne a decade ago. Most Saudis now believe that details will finally be announced before the end of February and consider that a further postponement would not be easily accepted.

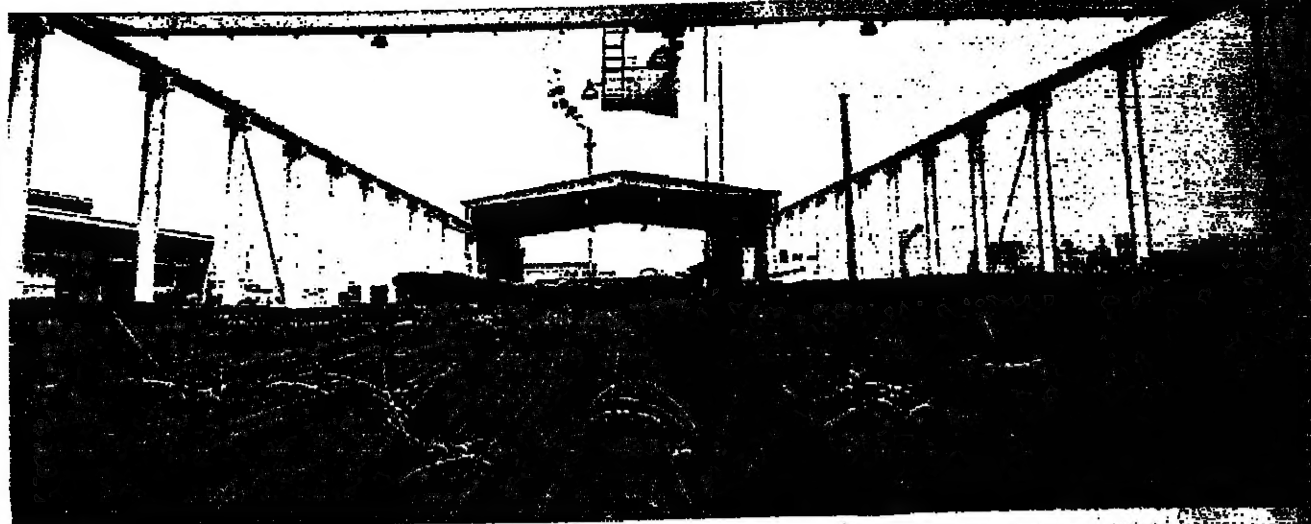
There is no indication yet as to the likely size of membership, from what sections of society it will be drawn, or what the role of the council will be. However, it is assumed that an attempt will be made to balance the different political and social forces at play and where grievances can be aired without making any commitment to initiate policy changes.

Liberals would prefer to see it, however, as the first step towards a properly elected assembly which, while not directly rivalling the authority of the ruling family, might eventually take greater responsibility for the daily administration of the nation.

"No one in Saudi Arabia can ignore the fact that we are becoming more, not less, like other countries," said an economist employed in the private sector. "We are never going to be so rich again. The budget is in persistent deficit. We are having to borrow internationally. Hard decisions will have to be made in the future, and, if the people are to support them, then they will require explanations."

Saudi Arabia's planned consultative council is in line with trends elsewhere in the Gulf. Of the six members of the Gulf Co-operation Council, Kuwait consistently led the way until it dissolved parliament in 1986. It has promised free elections in the latter part of this year.

King Fahd's announcement seems to have been well received by the extended ruling families, difficult though it is to make such assessments. Among the ultimate arbiters of power in Saudi Arabia, there is no indication that they feel their grip on power may be weakening. As one elderly family member patiently explained, the only real threat to the House of Saud would come from divisions within, not challenges from without.



Sabic's steel rolling mill: the government has encouraged domestic borrowing by state-run subsidiaries

■ BANKING

# An intriguing question

THE kingdom's banks surprised themselves in 1991. Despite the trauma of the Gulf crisis, which prompted an immediate run on deposits of between 10 to 14 per cent after Iraqi tanks rumbled into Kuwait, the country's 12 commercial banks have emerged into 1992 for the most part highly profitable and extraordinarily liquid.

With the 1991 reporting season getting underway, most banks are expected to announce strong income growth in a market which quickly and adeptly managed the Gulf crisis traumas and has become increasingly buoyant since. "It's been a bit of a surprise quite how well we've all come out of it," said one Riyadh banker.

In fact, the initial scramble for dollars and travellers' cheques with which Saudis greeted the Iraqis' invasion of Kuwait abated soon after August, 1990. Once the air war started, Saudis were quickly convinced that the allies would win a swift and decisive victory and bankers reported already seeing a return of funds.

This, combined with handling of the crisis by the Saudi Arabian Monetary Authority (Sama), the central bank, which bankers are unanimous in applauding, left many bankers congratulating themselves on a financial system few of them had believed could prove so robust.

The story since has been one of growth and superabundant liquidity. By October, 1991, the consolidated assets of Saudi banks, at SR302bn, were 12.5 per cent up on December 1990, and banks were seeing not only the return of flown deposits, but a further accretion.

"An amazing amount of money has flowed back," says the chief executive of one bank which has seen a 25 per cent rise in deposits since March, 1991.

The inflow of funds is well short of a wholesale repatriation of privately-held Saudi funds overseas, which some estimates put at $80bn. Nevertheless, bankers say it is at once a reflection of declining returns in overseas financial markets and a desire by some Saudi investors to stash funds securely at home where they are exempt from exchange rate risks and tax complications.

"A lot of Saudi investors got burned during the market movement in the Gulf crisis," says one banker. "They're looking for a breather."

The upshot has been to leave Saudi banks knee-deep in liquid funds – a staggering consolidated total of SR200bn of cash, interbank money and short-term investments at home and overseas. Another reflection of this influx of money is a recent rise in property prices and a stock market boom, which by the end of 1991 had doubled the market index to 175.5. The government, which foresees a SR30bn deficit in this year's budget, has rushed to embrace the large domestic borrowing potential this liquidity has opened up. In addition to raising $4.5bn last year in an international syndicated loan, the government also drew $2.5bn from its home banks – an offer most bankers say they were given little choice but to accept.

In November, the government also introduced fortnightly offerings of Treasury bills to supplement their fortnightly offering of development bonds. Banks have swallowed offerings of both whole and without blinking, and no bankers doubt the government's ability to finance this year's deficit. In addition, the government has encouraged state-run subsidiaries, particularly Sabic, the giant industrial holding company 70 per cent owned by the state, to finance their ambitious expansion plans through domestic borrowing.

Ibn Zahr, a Sabic petrochemicals affiliate, is presently raising $800m from the home market to finance its MTBE expansion scheme. Hadeed, the Sabic steel group, raised $500m last year, and al-Sharq, the ethylene producer, $600m, to list only some projects.

These lending opportunities have also been warmly welcomed by Saudi banks which, since the bad loans crisis precipitated by the oil-price slump in the mid-1980s, have been increasingly chary of lending to the domestic private sector in a market where good lending opportunities are anyway limited. Banks typically hold only 30 per cent of their assets as loans and advances.

For most banks, the tedious, complex and time-consuming process of recovering the bad debts of the 1986 slump – a procedure conducted essentially by face-to-face negotiations with each debtor – is behind them.

The effects of the debt crisis are not yet entirely over, however. Some provisioning continues: Saudi Cairo, for instance, last year transferred all of its SR36m profit into provisions and Saudi British Bank raised its quarterly contribution to provisions last year from SR6m to SR9m.

Some banks are also looking to boost capital, partly to banish any residual debt problems and partly to catapult themselves into faster growth still. Riyad Bank, in the most spectacular recapitalisation, earlier this month issued 8m shares to raise its capital tenfold to SR2bn. United Saudi Commercial Bank also said this month it will double its capital to SR500m with an SR250m transfer from reserves. Saudi Cairo is also understood to be contemplating a SR300m rise in its capital to SR900m, while Bank Al-Jazira, the kingdom's most troubled with losses in 1990 of SR33m, has also won Sama's approval to boost capital from SR100m to SR400m.

The biggest question-mark hangs over the privately owned National Commercial Bank, Saudi Arabia's best-connected and biggest bank, with assets in 1989 of SR84bn. The bank's accounts were qualified in 1987, 1988 and 1989 under articles of the banking control law banning lending to a client in excess of a quarter of reserves and prohibiting some types of credit without security.

Saudi banking: a story of growth and superabundant liquidity

The bank has still, unaccountably, not produced figures for 1990, amid unconfirmed rumours of internal wranglings over management control. The bank, which has a branch in London, is known to be concerning the Bank of England which is understood personally to have communicated its concern to NCB's owners.

Elsewhere, however, the greatest problem facing most banks has been what to do with their surplus money. For many, the answer has been to invest liquid funds in a mixed investment portfolio, much of it held overseas. Again excluding NCB's figures, the result has been to give banks an average 18 per cent return on equity in the 10 months to October, 1991.

Prospects for domestic business lending, given Saudi Arabia's small population of about 14m people, of which only about half are Saudis, are severely limited. "Even if we threw credit control to the winds, we still wouldn't be able to get rid of all our funds," says Mr Andrew Dixon, the managing director of Saudi British Bank.

Consumer lending is also fraught with uncertainty in a land where the influence of conservative Islam makes the matter of interest rates deeply sensitive and where, with Islamic Sharia law the sole formally acceptable code of conduct, no commercial law containing legally enforceable concepts of security over loans either exists or appears likely to be promulgated.

Banks are creeping gingerly into what they describe as this "virgin territory," however, by examining ways of offering consumer loans by guaranteeing payment directly from a borrower's salary – a method widely used elsewhere in the Gulf.

The banks' success in exploiting this untapped retail lending market will be an important indicator of how far banks can advance with western-style products under the eye of the country's influential religious leaders. "The big question over the whole banking market is the extent to which these people are allowed to influence the system," says one close analyst of the Saudi market.

So far, the government has been able to borrow both overseas and domestically at straightforwardly western rates of interest and introduce Treasury bills without any religious groups crying foul that this is unacceptably un-Islamic. Louder voices of opposition were recently raised, however, over the Riyad Bank share issue, which some influential religious leaders have condemned.

However, Saudi bankers are well used to working within the kingdom's religious confines. Islamic banks, such as the highly profitable al-Rajhi Bank, which pay no interest on their large deposits and earn money through various accepted forms of Islamic trade finance, do particularly well within these confines. Non-Islamic banks have also managed well enough so far by quietly referring bad debt cases, where debtors have claimed Islamic principles as the reason not to repay, to a special and increasingly effective Sama committee.

The extent to which Saudi banks can grow beyond these religious confines, however, will be the intriguing question of the decade. But many businessmen believe that the Saudis, who were once highly suspicious of any form of banking, are over any such worries.

"If you took the banks from people, they'd scream," says Sheikh Suleiman Olayan, a leading Saudi businessman. "They need banks like they need electricity or water."

**Mark Nicholson**

Some investors are even said to make trips deep into the desert where a clutch of bedouins can be persuaded to hand over their name, for investment purposes, for the price of some coffee and dates

■ STOCK MARKET

# Soaring prices set the pace

THERE is no better measure of Saudi Arabia's business buoyancy than its stock market. Prices have soared in the past year, doubling the market index to 175.5 points by the end of 1991.

Moreover, new share issues are generating the kind of excitement among Saudi investors which is the stuff of misty-eyed nostalgia in London – along with the market practices which are bringing tears to the eyes of the Saudi Arabian Monetary Authority (Sama), the market's regulator.

**Savola was forced urgently to launch a scheme to return the surplus cash**

In October, for example, Savola, the successful vegetable oil company, saw an offer of 1.2m shares to raise capital from SR120m to SR300m subscribed 14 times with 1.6m applicants applying for a total of 15m shares.

After having enthusiastically advertised the offer, Savola found itself sitting on a rather handy SR4.8bn of pre-payment and was forced urgently to launch a scheme to return the surplus cash to applicants until a means of share allocation was decided upon. Some unkind critics suggested at the time that the urgency of the scheme was not entirely Savola's idea.

The latest new issue, and the biggest in Saudi Arabia's history, is an 8m share offering by Riyad Bank to increase its capital tenfold to SR2bn. The offer closes at the end of this month, by which time the bank is confident that it will have been subscribed three or four times over.

This should be no surprise, given that the shares issue price is SR475 against a going rate for the rest of Riyad Bank shares of more than SR5,000 at the time of issue.

Moreover, although Sama has sought to clamp down on sharp trading practices by limiting the sale of shares to buyers over the age of 15, bankers in the kingdom nevertheless report some fairly impressive "stagging".

One banker claims that a single investor walked into a bank branch in the capital to apply for Riyad shares carrying a sheaf of no less than 10,000 photocopied identity cards to support 10,000 applications. Another investor is said to have turned up with 4,000 photocopied identity cards.

In so far as a donor consents to giving his name to a keen investor, there is little Sama can do about this practice.

**Fifty listed companies have a total market capitalisation of some SR50bn**

Among the sophisticates of Riyadh, the going rate for the sale of a name is apparently SR250. However, more crafty investors with a four-wheel drive vehicle are said to make trips deep into the desert where a clutch of bedouins can be persuaded to hand over their name, for investment purposes, for the price of some coffee and dates.

With the soaraway stockmarket such an attractive magnet for funds which Saudis seem increasingly keen to bring back into the kingdom, Sama is keeping a close eye on the market – for which all trading takes place on-screen and exclusively in bank branches.

The market's 50 listed companies have a total market capitalisation of some SR50bn, although the bank's investment departments which handle the trading claim that only 10 per cent or so of outstanding shares are actually traded. "Saudis with big holdings in companies tend to like to hold on to them," says one bank trader.

The market is closed to direct foreign investment. Brokers outside the banking system are also prohibited. Nevertheless, bankers say they are growing used to a small number of individual investors who seem to have been particularly active and liquid market players over the past year.

For the first two weeks in January, the market saw an average of 600-700 trading daily with a daily turnover of about 100,000 shares. And prices continue to boom.

According to Riyad Bank figures, for the first week in January, for example, the worst performing of the 11 listed bank shares, one of the strongest sectors, was Arab National Bank, up a paltry 77 per cent on a year earlier.

Riyad Bank itself led the way with a 180 per cent rise on the year in a sector which averaged share price rises of 124 per cent.

Utilities, with dismal single-figure price rises over the year, presently lag the market which is now led by National Shipping Company, shares in which rose 405 per cent over 1991.

But given the huge surplus of cash available to Saudi investors to spend on domestic stocks – aside from bank deposits they hold an estimated SR40bn in cash outside the banking market – bankers and regulators are watching the markets climb very closely indeed.

Saudis do not have to look further than Kuwait to see what happens when a surging stock market whets the appetite of enthusiastic Gulf investors – never ones to turn down the chance of a big, quick return. The informal Kuwaiti Souq al Manakh stock market soared gaily skywards during the early 1980s only to plummet during the oil price slump, leaving total paper debts of no less than $94bn.

The Kuwait government is even today mulling over plans finally to write off the remainder of that debt – a move which will cost the emirate's stretched exchequer a tidy $7bn.

**Mark Nicholson**

Jubail industrial city: part of the government's effort to encourage expansion

**Mark Nicholson** on the private sector

# Steady growth

THE Saudi private sector will always be something of a tic bird living on the broad buffalo back of the country's state-run oil industry.

It is a bird the government has eagerly fed to fatten over the past 15 years with heavy investment in infrastructure, cheap loans, industrial cities, and other incentives. But, as one Riyadh banker remarks: "If you add up all the private sector initiatives in the context of the $45bn Saudi Arabia earned with oil last year, it's never going to amount to very much."

To be strictly accurate, the non-oil sector of the Saudi economy makes up 80 per cent of GDP. However, once the government and the service sector – much of which itself depends directly on the government – are stripped out, along with the hugely subsidised agricultural sector, the residual private sector makes up just over 20 per cent of national income.

And it is this area of the economy – essentially privately run industry – which the government is most interested in nurturing. The last three five-year plans have all set as a priority the expansion of the kingdom's private manufacturing and industrial base, both as a diversification from oil earnings alone and as an employer for the large cohort of young Saudis now joining the work force.

To this end, the government has created the now-self-financing Saudi Industrial Development Fund to offer interest-free lending to industry, and has built from scratch the two industrial cities of Yanbu and Jubail. It has also fostered the recent growth of private joint stock industrial investment companies.

Behind these initiatives lies the government's desire, having done the ground work by paying for the kingdom's well-developed but highly expensive infrastructure, to devolve to the private sector the means and responsibility for its own independent organic growth.

The result so far has been one of steady growth. The kingdom now has more than 2,000 working factories and is seeing up to 50 new units open annually. But under the latest five-year plan, which began in 1990, the government wants to see this rise to up to 80 new factories a year.

If this target can be achieved by sheer enthusiasm alone, it should be easily attained, given the gung-ho post-war mood among Riyadh's bankers and businessmen. "The profits are good, performance is good – people are just bullish," says Sheikh Suleiman Olayan, chairman of the large Olayan industrial group.

There is no question that Saudi Arabia's private sector had a good war. The influx of more than 800,000 people during the crisis did wonders for consumer goods, car and property markets last year, particularly in the Eastern Province. Supplying Kuwait's immediate reconstruction needs also provided a fillip for Saudi construction companies, which have seen lean times since the booming early 1980s.

Moreover, seldom has the private sector been more liquid. Banks alone have some SR200m in liquid assets on their books and money has flowed back into the kingdom since the war. "It's a lot to do with sentiment and the feeling that Saudi Arabia came out of the crisis a more confident and safe place," says one diplomat.

However, Saudi Arabia is one of six countries in the limited Gulf market all pursuing identical policies to encourage manufacturing, all of them heavily public sector-backed. In each, after nearly 20 years of exploring all avenues of viable import substitution, the scope for further growth is becoming tighter.

Moreover Saudi investors generally prefer their money to make fast returns and stay liquid. The risk and longer-term returns of direct industrial investment have not traditionally made it the first port of call for most Saudi investors.

In addition, banks which are still seeing off the painful effects of some dubious direct investment in the mid-1980s are deeply cautious about making fresh domestic business lending. Furthermore, given Saudi Arabia's small population, many bankers reckon that profitable opportunities are in any case thin on the ground. "With little more than 7m Saudis, you can only manufacture so much toothpaste," says one banker.

**Some believe the country can offer an expert springboard for the whole Middle East**

To bridge the gap between reluctant Saudi investors and such opportunities as exist, the government has placed particular emphasis on the growth of joint stock companies designed specifically to seek and nurture promising enterprises.

The first such company, National Industrialisation Company, was set up in 1984 and has since invested in 45 companies across a spectrum from aircraft repair companies, glass manufacturers, canning companies and foundries to petrochemical groups. Much like a venture-capital company, NIC, which declared a 1990 profit of $4.8m and expects $8m for 1991, in most cases takes a minority share in a company and appoints a representative to the board.

According to Mr Khalid al-Thukair, NIC's general manager, the company is taking a lead the banks should follow. "You can't blame them for their caution after the mid-1980s, but now we need more courageous steps from them," he says.

Mr al-Thukair is among a growing group of Saudi businessmen who believe the country can offer not just a broader industrial base but even an expert springboard for the whole Middle East.

The kingdom's advantages, he argues, are an unmatched infrastructure, cheap transport and energy, the availability of interest-free loans from the SIDF for up to 50 per cent of the project and cheap expatriate labour from Asia.

However, these are exactly the same advantages claimed by the kingdom's neighbours. It is also fair to say that such advantages can be temptingly sustained only through strong public sector support, which comes down finally to sustained strong oil revenues.

Nevertheless, as an example of how these factors can combine to make even the unlikeliest-sounding product a runner in Saudi Arabia, Mr al-Thukair cites the example of a NIC-sponsored scheme to set up a newsprint factory in the kingdom. The SR1bn project, due for completion in 1994, will import wood chips bought on the world market to supply the paper pulp and, he argues, the plant will supply not only all Saudi Arabia's needs but also export throughout the Middle East.

NIC's lead in developing manufacturing industry has since been followed by subsequent joint-stock companies, notably the Saudi Industrial Export Company, set up in 1989, and the Arabian Industrial Company, a year later.

Allied to these groups are offset contractors, such as British Aerospace, the lead contractor for the al-Yamamah arms deal, and Hughes Corporation, which heads up the US Peace Shield arms programme, both of which are scouring the kingdom for viable industrial joint ventures to fulfil their reinvestment obligations under their respective arms deals. Since the BAe-led programme got under way in 1988, 14 projects have been proposed and 11 have won official approval to proceed with full feasibility studies and business plans.

These projects range from proposals to manufacture drugs, vegetable oils, military trucks, acrylic products, to the establishment of an aluminium smelter using locally available bauxite and caustic soda.

No project is yet under way. This is partly because the offset programme has not yet been able to establish a "fast track" through the Saudi bureaucracy, which even well-connected Saudi businessmen often find to be foot-dragging. But it is also partly, according to some executives in the offset programme, difficult to find manufacturing opportunities to the scale of the expected investment.

The British offset deal, for instance, is aimed to see $1bn invested in joint projects within 10 years, a sum which will be matched by Saudi investors. But the total capitalisation of the 140 British-Saudi joint ventures set up over the past 25 years is only £328m.

"You often wonder if the Saudis are not trying to develop their manufacturing too fast," says an executive in the programme. "And you also wonder whether there really are that many opportunities out there in the first place."

## ■ AGRICULTURE

# Subsidised security

THE continued appearance of thousands of perfectly formed wheat circles in the deserts of Saudi Arabia has economists baffled.

Unlike the corn circles which appear magically in southern English fields, there is no mystery to these circles' proliferation. The swathe of wheat circles in the Hail and Qassim regions of Saudi Arabia, the kingdom's wheat belt north-west of Riyadh, derive directly from the government's policy of heavily subsidising agriculture to assure a prudent level of food self-sufficiency.

What raises the economists' eyebrows is the level of support the government is willing to commit to this policy.

King Fahd, the Saudi ruler, this month authorised payment to the country's wheat farmers of no less than $2.1bn for their record 1991 wheat crop of four million tonnes. On average, agriculture experts reckon, this amounted to payment of upwards $480 a tonne for Saudi wheat, compared with world prices of just over $100 a tonne.

Since the government embarked on its subsidised path to food security in the mid-1970s, farmers in their thousands have turned to a low technology irrigation system using a central pivot and rotating watering pipe, pioneered in California in the 1940s, and greened the desert with crop circles – some covering more than 100 hectares each.

The highly subsidised scheme has led to successive bumper harvests and a large grain surplus. Saudi Arabia's 152,000 farms were already producing enough wheat by 1984 to meet domestic demand of about 1m tonnes. The government's largesse since has led to a series of surplus harvests: enough to fill available Saudi storage capacity of 1.4m tonnes and turn the kingdom into the world's sixth largest exporter.

Saudi Arabia has exported a total of 9m tonnes of wheat since 1986 to 40 countries, while the subsidies have helped cut food imports by half from 87 per cent of total needs in 1980.

But economists are prone to raise eyebrows at the full and indirect costs of Saudi wheat production. The direct subsidies are only a part of government support packages for farming which also include such inducements as 80 per cent interest-free loans for agricultural enterprises.

More crucial, however, is the cost to the nation's limited water supplies. Agriculture accounts for at least 90 per cent of the kingdom's annual water consumption – more than 14bncubic metres. This, since desalinated water is both too limited in supply and too saline even after purification for agricultural use, is running down reserves of fossil water which, according to the best available estimates, have a lifespan of 15-25 years at present rates of depletion.

"The present wheat policy is little short of a heavily subsidised way of exporting water," is one diplomat's gloss on the subsidised programme.

The government, which treats information about water security with the secrecy it accords information on national security, disputes there is any dangerous threat to water reserves, maintaining that more aquifers will be discovered in time. Moreover, it stands solidly behind a policy which, whatever its economic cost, is also seen to reap vital political profit.

The agriculture programme's impetus came from threats issued by some US politicians during the 1973 Arab oil embargo that western countries should retaliate with a food embargo of their own. The kingdom swiftly turned its prodigious oil wealth to try to counter any such threat through the subsidy programme. Domestically, moreover, the subsidies also provide affluence and jobs in the north-western interior which had won few direct economic spin-offs from the country's oil boom and which is a strongly conservative Islamic heartland.

Such considerations make the kingdom unlikely to abandon agricultural support. Since Saudi Arabia is not a member of the General Agreement on Tariffs and Trade, there will also be no external obligation for it to cut support.

Nevertheless, the government has sought to restore some kilter to agricultural output by requiring wheat farmers to apply for certificates to produce the crop – and by adjusting the subsidy to promote cultivation of barley, of which the kingdom produces 400,000 tonnes a year to feed camel and sheep, but of which it still imports 3m-5m tonnes a year.

As last year's record wheat harvest indicates, the policy has so far had limited effect. Nevertheless, Saudi Arabia is witnessing elsewhere a growing and increasingly diversified farming economy. Agriculture is expected by the government to grow by 7 per cent a year to 1995 by when it is expected to account for 9 per cent of GDP.

According to figures released last year by the agriculture ministry, domestic agricultural production rose 40 per cent between 1984 and 1988, with the value and volume of food imports falling 31 per cent and 41 per cent respectively over the same period. In the five years to 1990, agriculture increased its share of GDP from 3.4 per cent to eight per cent, with employment in the sector rising to 569,000.

So far, the kingdom is truly self-sufficient only in wheat, eggs and dates of which it is the world's biggest producer with output of 542,000 tonnes last year.

Heavy – and again heavily-subsidised – investment in dairy farming has brought the kingdom on the verge of self-sufficiency here too. And, here too, the farming is on a gigantic Saudi scale. As an illustration, the Al Safi dairy farm 70km south of Riyadh proclaims itself the world's largest, with a herd of 20,000 Holstein cattle and a parlour which milks 1.25 million litres a day.

But here again the cost of producing milk from a desert dairy can be measured in an expensive use of water. Some agriculture experts in the kingdom estimate that to produce one litre of milk – taking into account water used to irrigate the feed, plus that sprayed on the animals to keep them cool, that which is used to clean the dairy equipment and the gallons used to water the cows themselves – requires no less than 1,500 litres of water.

**Mark Nicholson**